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Summary of Commentary on ______

Current Economic Conditions

by Federal Reserve District

March 1995

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS

MARCH 1995

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SUMMARY[1]

Reports from the twelve Federal Reserve districts suggest that the pace of the economic expansion has moderated over the past two months. Half the districts note that growth has slowed, while the remaining districts generally report that conditions are mixed. Retail sales and residential construction weakened across much of the country. In contrast, manufacturing continued to grow in all but one of the regions and labor markets remained strong. Although commodity prices continued to rise, several districts note that the rate of increase has decelerated. There is little evidence that strength in labor markets or increases in commodity prices have spilled over into wages or prices of finished goods.

Retail

Recent reports suggest that retail sales growth, measured on a year-over-year basis, slowed in over two-thirds of the districts. Retailers in Boston report sales were flat or declining for a broad range of merchandise, including winter apparel, housewares, and sports equipment. Minneapolis cites news reports of a "retail slump," while retailers in both the Dallas and San Francisco regions report that sales declined along the Mexican border because of the weak peso. While two districts

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[1] Prepared at the Federal Reserve Bank of New York based on information collected before March 6, 1995. 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.

report noticeably stronger retail sales growth, they note that much of the strength is attributable to special factors -- weather in New York and clearance promotions in Kansas City. Retail inventories have increased beyond planned levels in the Cleveland, Richmond, Chicago, and Dallas districts. Auto sales have generally weakened; dealers in the San Francisco region are using rebates and other incentives to bolster sales.

Manufacturing

Growth in the manufacturing sector has generally remained strong since the beginning of the year. Manufacturing strengthened in Philadelphia, Minneapolis, and Dallas, while remaining robust in Cleveland, Chicago, and Kansas City. Sources in Minneapolis describe the strongest manufacturing performance in recent years. Boston, New York, Atlanta, and San Francisco report that conditions were mixed, with weakness in some segments of manufacturing offsetting strength in others. The sector continued to grow but at a slower pace in St. Louis. Preliminary results of Richmond's survey of manufacturers show that new orders, backlogs, and employment indexes were down slightly in February from their January levels. Contacts in three of the districts expect the pace of manufacturing growth to moderate in coming months.

Capital goods industries have been particularly robust. Cleveland reports that orders of capital goods, led by strength in export markets, have continued to grow strongly. In St. Louis, exports of capital goods included construction equipment shipped to Japan in the wake of the Kobe earthquake. Computer equipment, pulp and paper products, and electronics are also repeatedly cited as sources of manufacturing strength. Examples of manufacturing weakness include the aerospace industry (Boston and San Francisco), automobiles and auto supplies (Boston and Chicago), and apparel (Atlanta and Dallas).

Construction and Real Estate

Construction of single-family homes continued to slow from 1994 levels across much of the country. Atlanta, St. Louis, Kansas City, Dallas, and San Francisco report that homebuilding declined, while Philadelphia and Minneapolis report that activity leveled off. Looking forward, however, contacts in a third of the districts expect demand to strengthen later this spring. In contrast to the weakness in single-family homes, the construction of multifamily housing increased in both the Atlanta and Kansas City regions.

Reports on commercial construction are more upbeat. Cleveland, Richmond, Atlanta, Chicago, Minneapolis, and Dallas note an increase in commercial construction, driven by such diverse factors as a scarcity of large blocks of contiguous office space (Atlanta), expansion of manufacturing capacity (Chicago), and increased demand for warehouse space (Minneapolis). Reports on commercial real estate markets are mixed, however. The market softened for office space in midtown Manhattan. Philadelphia notes that its office market remains weak, although demand for industrial space has firmed. Within the San Francisco region, commercial real estate markets are weak in California but strong elsewhere.

Banking and Finance

Loan demand was steady or higher in nearly all of the districts. The strength in lending was primarily attributable to commercial and industrial loans. In contrast, New York, Atlanta, St. Louis, and Kansas City report that residential mortgage lending slowed as the housing sector cooled; Cleveland notes that mortgage refinancing is at a standstill. Consumer lending -- especially automobile loans -- weakened in Philadelphia, Cleveland, Atlanta, and St. Louis while remaining flat in Richmond and Dallas.

Agriculture

Favorable weather conditions coupled with increases in crop and livestock prices brightened the outlook for farm incomes. Chicago reports that market conditions in the agricultural sector held up better than expected. Mild winter weather benefitted livestock production in the Richmond and Minneapolis districts. St. Louis, Dallas, and San Francisco note that strong domestic demand coupled with reduced foreign supply boosted cotton prices.

Prices and Wages

Although commodity prices have continued to rise, several districts report that the rate of increase seems to have eased. Boston notes that some suppliers of steel and chemicals are now offering customer rebates to soften the impact of price increases. Contacts in Cleveland report a moderation in the rate of increase of industrial commodity prices. Fewer manufacturers in Minneapolis report delivery delays, while manufacturers in Dallas expect price pressures to ease in coming months. In contrast, Chicago sees little evidence that manufacturers' input prices have ebbed and notes that recovery abroad may put upward pressure on commodity prices by tightening import supplies.

In general, the districts report that increases in commodity prices have not spilled over into prices of finished goods. Boston notes that finished goods prices have generally remained stable, with increases for some products offset by decreases for others. Chicago, Kansas City, and Dallas report that intense competition among retailers kept prices flat despite increased input costs.

Labor market conditions are generally strong. Cleveland, Chicago, and Minneapolis report that labor markets have remained tight. A survey by a large temporary help firm in Chicago showed further strengthening in employers' hiring plans after record high levels late last year. Similarly, Minneapolis notes shortages of skilled workers, particularly in manufacturing. New York, Atlanta, St. Louis, and Kansas City report spot shortages of labor. In contrast, manufacturers hiring for replacement purposes in the Boston region had little difficulty finding qualified workers. Despite the strength in labor markets, the districts report little evidence of upward pressure on wages.

FIRST DISTRICT - BOSTON

The pace of New England's economic expansion shows some signs of moderating. Manufacturing activity continues to grow at a rate that varies from modest to robust. But most manufacturers also note selected areas of market weakness, and the region's retailers report disappointing results. While commodity prices continue to rise, some contacts report signs of deceleration; sales prices remain stable at most firms.

Retail

First District retail contacts were disappointed with January and February sales, which mostly ranged from level to 10 percent below year-ago levels. Retailers indicated, however, that year-over-year comparisons were misleading because last year saw sales fluctuations caused by winter storms while this year's weather is unseasonably warm. Poor sellers were apparel, particularly winter clothing, snow-removal equipment, housewares, sports equipment, and ready-to-assemble furniture. Home office and electronics continued to perform well.

Reports on price increases varied considerably. A few retailers cited an overall rise of 2 to 3 percent in vendor prices, and increases of over 10 percent on leather, plastic, and paper products. By contrast, prices on apparel have dropped modestly, and food prices remain level with the exception of meat, the price of which has reportedly declined over 10 percent in the past year.

While gross margins have varied, profits are holding or increasing modestly. Capital spending plans are level with those of last year. Employment is relatively flat, and wages are expected to increase 3 to 4 percent this year. First District retail contacts expect only level to modest sales gains over the next six months. They sense the economy is growing more slowly this year than last, and more respondents expressed concern about interest rates than in the past.

Manufacturing

Most First District contacts report continued growth in orders and sales, with year-over-year gains ranging from slight to 35 percent; however, the majority also note weakness in one or more markets. Demand for capital equipment is mixed, with sales of machine tools and networking equipment achieving double-digit gains while makers of other computer-related products and instruments cite recent softness. Sales of construction-related products remain moderately strong as firms expand factories, warehouses and hotels; however, the residential sector is said to be slowing. Orders from the aircraft industry remain subdued and contacts report that auto makers have recently reduced orders or asked that suppliers delay shipments. Demand for medical equipment is mixed at best, while disposable medical supplies are experiencing strong single-digit growth, as are packaging materials. Reflecting a lackluster season in apparel, textile sales remain sluggish. By contrast, specialized consumer products are enjoying strong and improving growth.

While several firms continue to report sharp increases in prices for some commodities (particularly wool, polyethylene, and metals), a few note signs of possible moderation. One respondent noted that, while steel and chemical prices continue to climb, suppliers have begun offering rebates that soften the impact. In addition, prices of computer memory chips, which had been rising, have started to fall. Another contact who had been building stocks of supplies in anticipation of price increases is rethinking this strategy. Sales prices generally remain unchanged, although a few contacts are passing cost increases on to customers or are raising prices on selected, particularly new, products. Others, citing fierce competition, report cutting prices by double-digit amounts.

Employment is below year-ago levels at most respondent firms. While one contact plans a significant layoff, most hope that their employment levels will stabilize at current or slightly lower levels. Firms hiring for replacement purposes generally have no trouble finding qualified workers.

Most contacts plan to raise capital spending above 1994 levels, with expected increases ranging from slight to over 20 percent. These funds will be used to expand capacity, introduce new products and cut costs.

Most respondents foresee at least modest improvements in company sales and profits in 1995. As an exception, three instruments makers describe 1995 as a challenging year. More broadly, contacts expect U.S. economic growth to slow; however, views are split as to whether the economy will achieve a soft landing or slip into recession.

Nonbank Financial Services

Since the beginning of the year, assets under management increased at the majority of respondents among investment management companies, while the rest were unchanged. Most attributed the increase in assets under management to an increase in the market value of the assets. A few respondents had positive net sales, with most of the money flowing into domestic stock funds. Bond funds continue to experience net outflows at most respondents, but these outflows slowed in February compared to January of 1995. Half of the respondents report stable employment levels and the other half are hiring this year.

SECOND DISTRICT--NEW YORK

On balance, reports on District economic conditions suggest that growth has slowed. Although retail sales were above expectations, much of the gain was attributable to better weather this year than last. Despite the favorable weather, residential construction activity varied widely. Unemployment rates rose in both New York and New Jersey, while announcements of corporate layoffs and military base closings foreshadow future labor market weakness. Eighty percent of senior loan officers at small and midsized banks reported steady or weaker aggregate loan demand.

Consumer Spending

District retail sales rose strongly during February, with sales gains ranging from +2 to +11 percent on a year-over-year basis. Although part of the gain was attributed to the unusually harsh weather which depressed sales last February, most contacts reported above-plan sales growth. Several retailers noted that sales of women's apparel were strong after months of disappointing performance. Menswear, electronics, housewares, and home improvement products also sold well. Inventories consist of current spring merchandise and are at planned levels.

Construction and Real Estate

Residential construction activity varied widely among regions within the District in recent weeks. Despite mild winter weather, weak demand for housing due to corporate restructurings and base closings slowed homebuilding across much of Central New York State and Northern New Jersey. Activity in Rochester and Buffalo is sluggish, but has generally remained at 1994 levels. In contrast, the Albany area, the lower Hudson Valley, and Long Island showed somewhat greater strength.

After a strong fourth-quarter, the market for midtown Manhattan office space softened in January due to an unusually sharp increase in the amount of space returned to the market. In contrast, conditions in the long-struggling downtown office market improved somewhat, as a surge in leasing activity caused vacancy rates to decline and asking rents to firm. Responding to the downtown market's long-term difficulties, Mayor Guiliani recently announced a plan for the revitalization of lower Manhattan, including tax incentives to stimulate leasing and zoning changes to encourage the conversion of vacant office space to residential use.

Other Business Activity

District unemployment rates rose in January, following three straight months of declines. New York's rate rose 0.3 percentage points to 6.0 percent, while New Jersey's rate jumped a full percentage point to 7.2 percent. A number of job cuts -- announced since mid-January -- provide evidence of continued corporate downsizing. The roster of firms announcing new cuts included Kodak, Martin Marietta, and Fisher-Price, each planning to pare from 700 to 800 jobs by year-end. Wall Street continued to downsize, with announcements by Goldman Sachs, Salomon Brothers, First Boston, and Donaldson Lufkin & Jenrette.

Military base closings are also affecting District employment. Over the next few months, 650 civilian jobs will be eliminated at Rome's Griffiss Air Force Base, with much heavier civilian and military job losses scheduled for later this spring. The latest round of base closings -- announced February 28^{th} and occurring over the next few years -- are expected to eliminate nearly 3,000 military and civilian jobs within the District, including roughly 1,300 civilian jobs at the Bayonne Military Ocean Terminal and 1,000 civilian jobs at Rome Laboratories.

On a more positive note, Tops Markets announced plans for an Erie County grocery distribution center, expected to create 600 jobs. In the longer run, the Oneida Indian Nation's proposal to establish a casino in

Sullivan county (90 miles north of New York City) could boost service employment in the Catskill region.

Purchasing managers in the Buffalo and New York metropolitan areas reported that production in February declined from January levels; in the downstate area, weakness in the non-manufacturing sector outweighed strength in manufacturing. Managers in both regions reported that price pressures eased over the period. Small manufacturers in Western New York report spot shortages of skilled labor.

Financial Developments

Compared to two months ago, aggregate loan demand is steady at about half of small and midsized banks surveyed in the District and lower at over one-third. The residential mortgage segment remains the weakest, with demand lower at about half of the banks. The non-residential mortgage and commercial and industrial loan segments are the strongest. Over half of those surveyed report steady demand and about two-tenths report higher demand in each of these categories. Refinancing activity is steady or lower at all of the participating banks.

About seventy percent of the senior loan officers surveyed maintained their willingness to lend over the past two months, while thirty percent have increased their willingness. At nearly all banks, credit standards are unchanged, and about eighty percent have stable or lower delinquency rates. Loan rates are mainly higher or the same across all categories of lending; a few banks report lower rates on residential mortgages. Almost half of the respondents note that recent increases in rates paid on deposits have resulted in a narrowing of the spread between the average lending and deposit rates.

THIRD DISTRICT - PHILADELPHIA

Reports from Third District business contacts were mixed for February but, on balance, suggest a slackening rate of growth. Manufacturers noted some gains in shipments and orders during the month although order backlogs continued to fall. Retailers generally said the February sales rate eased from January and auto dealers noted a drop in sales as well. Bankers indicated that loan demand was soft with flat business lending and declining consumer lending. Realtors said home sales were steady in February and a large number of homes remain on the market. Commercial real estate conditions continued to be soft, according to real estate contacts, but demand for industrial space was firming. Construction activity of all types remained low.

Looking ahead, manufacturers expect continued growth although the level of optimism has declined somewhat from the beginning of the year. Both general merchants and auto dealers said they expect sales to pick up in the spring. Bankers, however, expect economic growth to slacken, keeping lending activity flat or possibly inducing a decline. Residential realtors said sales could pick up in the spring, especially if mortgage interest rates come down. Commercial realtors do not foresee much better conditions in the near future except for industrial space and perhaps for office buildings in a few suburban locations in the District. Builders expect some stepped-up activity in the spring for home building and commercial construction, primarily in suburban locations.

MANUFACTURING

Manufacturing activity in the Third District moved up slightly in February, according to survey contacts. Just over one-fifth of the manufacturers polled said business had picked up compared to January although about two-thirds said operations at their plants were just steady. Makers of nondurable goods fared slightly better for the month than producers of durable goods. In particular, metal fabricators and producers of electrical machinery noted a falloff in demand for their products. Overall, however, about one-third of the industrial firms surveyed reported increases in orders and shipments in February while just over half said orders and shipments were steady.

Third District manufacturers added slightly to payrolls during February although the average workweek was unchanged compared to January. Manufacturers also reported steady inventories. With respect to prices, plant managers are evenly divided between those reporting steady input prices and those reporting increased costs for purchased inputs. For their own products, two-thirds are holding the line on prices although one-fifth have implemented increases.

While the outlook among Third District manufacturers is for continued growth, the number forecasting improvement has slipped somewhat since the beginning of the year. About half of the manufacturers contacted for this report expect business to be steady during the next six months while one-third anticipate continued improvement. On balance, local industrial firms expect further gains in shipments and orders, but they anticipate that the current downward trend in order backlogs will continue also.

RETAIL

Most of the Third District retailers contacted for this report said sales in February eased from the January pace. A slowdown in sales of furniture and other big-ticket home furnishing items was cited by several merchants. Store executives generally indicated that the overall sales rate appeared to be steady as the month came to a close, and they were not revising their expectations that sales will pick up in the spring.

Auto dealers also noted a drop in sales in February compared to January. Some said they believe that sales were held back by recent price increases and a drop in consumer confidence. Although dealers anticipate an upturn in the spring, some said that a continuation of the lower sales rate in March would call such a forecast into question.

FINANCE

Third District bankers generally described loan demand as soft at the end of February. Most of those contacted for this report said commercial and industrial loan volume outstanding was flat compared to January, and that applications for new loans were falling. They also reported softening consumer lending as February came to a close, with declines in credit card balances and other unsecured consumer loans as well as auto financing. On balance, bankers making forecasts for the year expect overall economic growth to slacken and lending activity to remain flat or edge down for at least the first half of the year, and possibly longer.

REAL ESTATE AND CONSTRUCTION

Third District realtors described the recent rate of home sales as steady in most parts of the District although a few noted increased sales. Home builders reported some increases in traffic at their sites but said this had not yet been reflected in increased sales. Realtors indicated that the number of homes listed for sale remains high, keeping a lid on price appreciation. Some realtors said they expect mortgage interest rates to ease by the spring and they expect this easing and the usual seasonal pattern will lead to increased sales at that time.

Demand for commercial real estate remains soft, according to commercial realtors and building agents, especially in the Philadelphia central business district. Realtors estimate the office vacancy rate at about 15 percent in Philadelphia and in the range of just under 15 percent to 20 percent in other parts of the Third District. Although this is an improvement from a year ago, some of the improvement is due to a reduction in space available for lease. Realtors said the rebalancing of demand and supply will only gradually be reflected in firming lease rates and purchase prices near the end of the year. Demand for industrial space is stronger, according to realtors, and could result in higher lease rates and purchase prices during the year.

According to contacts in the construction industry, building activity remains soft throughout the District. Expectations are that the pace will pick up somewhat in the spring, with increases in home building, construction of industrial buildings, and perhaps some office buildings in suburban areas.

FOURTH DISTRICT - CLEVELAND

General Business Conditions

There has been some slowing in the growth of District business activity, although outright declines are rare and most industries are still reporting high levels of production. Capital goods producers continue to pace industrial growth, led by a strengthening in export markets. Employment conditions may have actually improved somewhat, and unemployment in most regions is substantially below the national average. Nevertheless, significant wage pressures are not reported. And while industrial materials costs are continuing to rise at an above-average rate, few manufacturers indicate that these increases are spilling into finished goods prices in any notable way.

Manufacturing

The District's industrial sector remains strong, with perhaps some modest slowing in auto and auto-related manufacturing. Capital goods producers continue to report orders growth, especially from foreign customers. Indeed, a slight slackening in domestic demand for capital goods has been more than offset by an acceleration in exports.

A steady or slightly rising proportion of manufacturers are reporting higher employment levels; only a small and declining number indicate reductions. In many industries and regions, companies are having difficulty finding skilled laborers, and indeed, unemployment rates in the District are among the nation's lowest. Several respondents also reported higher rates of labor turnover. Nevertheless, signs of wage pressure are difficult to find, and most companies are still reporting wage growth at, or perhaps slightly below, the rate of inflation. A major commercial real estate firm reports a shortage of industrial space, and industrial construction activity appears to be on the rise.

Several manufacturers report a moderation in the rise in industrial commodity prices, although the number of goods whose cost has increased is still very large and ranges from wood products (lumber, paper, and wallboard), to plastics (polyester and PVC), to metals (aluminum, copper, and steel).

Retailers

Although February is traditionally a slow month, District retailers were nonetheless disappointed in this year's performance, and many are now reporting higher-than-desired inventories. Most notable are the excess stocks of winter outer wear, a reflection of unseasonably mild temperatures. While a few large chain stores indicate solid sales gains, most report flat or declining receipts, and specialty stores, such as women's apparel and furniture establishments, are down significantly. Some (if not most) retailers point to higher interest rates as a key to the slowdown in durable goods sales, although much of the slippage has reportedly come through a softening housing market. Retail market analysts are cautious about the near-term outlook, in part because of the uncertain significance of the recent sales slowdown. Moreover, they suggest that March sales will be negatively influenced by a late Easter.

One of the District's largest furniture sellers reports that many suppliers will not quote prices on orders more than 30 days in advance because of the uncertain cost of wood and other furniture construction materials. However, price competition remains severe and retailers say that it is virtually impossible to pass price increases through to consumers.

Autos

Fourth District auto dealers report a downturn in new light vehicle sales between late January and the end of February. The recent weakness may have actually begun in November and has become more pronounced since the beginning of the year. However, demand for some light trucks and sport/utility vehicles remains strong, and one market analyst observed an improving market for used vehicles.

Slower auto sales have resulted in a considerable unplanned inventory buildup -- a dramatic turnaround from the shortages that dealers complained about through the third quarter of 1994. The buildup of vehicle stocks, combined with higher interest rates, has reportedly caused a surge in floor plan costs.

Auto dealers also point to higher interest rates as a pivotal development in the new-car market, although bad weather in February may also have hurt sales. Still other sources say that rising interest rates for new-car loans are not reducing sales as much as are the restraining income effects of higher mortgage rates on disposable incomes. These higher rates have virtually eliminated home refinancing while boosting mortgage payments for households with variable-rate agreements. Fourth District auto dealers remain hopeful that sales will improve in the months ahead, but few believe that the gains will rival last spring's performance.

Price increases for 1995 new-car models were bumped marginally higher early this year. However, incentive plans are becoming increasingly common, helping to offset the higher costs.

Banking and Credit

Loan demand remains strong, especially in the commercial lending categories. Business borrowing has recently broadened to include mergers and acquisitions, although credit for capital expansion and inventory floor plans is also rising. While some slowing in the growth of consumer borrowing is noted, it appears to be centered in new-auto credit. Household borrowing in other non-real estate categories is still strong. Perhaps the most significant drop-off in lending activity has been in the mortgage area, where refinancing activity has slowed to a standstill and new-mortgage extensions are down substantially from last fall.

FIFTH DISTRICT-RICHMOND

Overview: Economic activity in the Fifth District changed little in January and February. Areas exhibiting little or no growth included residential and commercial real estate and the service-producing sector. Consumer spending and manufacturing activity were down slightly. Activity at District ski resorts and ports was up, however, and loan demand was stronger. Conditions in agriculture continued to be better than a year ago.

Consumer Spending: Preliminary results from a mail survey of retailers indicated that District retail activity decreased in February. Sales and employment decreased, and shopper traffic and wages were unchanged. Inventories were higher, and big-ticket sales rose slightly. Survey respondents indicated that retail prices increased 0.8 percent in February. They foresaw increased demand for their products and an increase of 1.5 percent in their prices during the next six months.

Service-Producing Firms: Preliminary results from a mail survey indicated that activity in the service-producing sector changed little in February. Revenues were unchanged; wages rose; and employment rose slightly. Service producers indicated that prices rose 0.2 percent in February. They expected increased demand for their services and an increase of 0.7 percent in their prices during the next six months.

Manufacturing: Most indicators of factory activity declined slightly in February from their January levels, according to preliminary results of a mail survey of District manufacturers. The shipments index changed little and the new orders, backlog, and employment indexes declined somewhat. Manufacturers expected shipments, employment, the workweek, and wages to increase during the next six months. Finished goods prices rose more slowly in February than in January, and at a rate less than the general inflation rate. Raw materials prices rose more in February than in January, and at a rate higher than the general inflation rate. Respondents expected prices to rise less during the next six months than they had in January.

Tourism: A telephone survey of hotels, motels, and resorts throughout the District indicated that tourist activity in February was above that of January and a year ago. The ski season got off to a slow start in December and January because of a lack of snow, but activity at ski resorts rebounded with colder weather and more snow in February. Winter bookings at District hotels and motels were mixed compared to a year ago. Contacts expected better-than-normal business and moderate price increases over the next six months.

Ports: Representatives at District ports indicated that export and import levels in January were higher than those in December and a year ago. They attributed increased imports to strong economic growth domestically and increased exports to strong economic growth abroad. The port representatives expected that, during the next six months, both exports and imports would increase at similar rates.

Finance: District financial institutions reported that loan demand picked up during the last seven weeks. Demand for mortgage loans increased sharply, that for commercial loans increased moderately, and that for consumer loans remained steady. Interest rates were higher on consumer and commercial loans, but were lower on mortgage loans.

Residential Real Estate: According to a telephone survey of District realtors and builders, residential real estate activity was unchanged in late January and February. Building permits, home sales, and housing starts were stable over the period. Buyer traffic, however, increased. Home prices were steady, except in North Carolina, where they decreased. District building material prices and subcontractor wages were unchanged.

Commercial Real Estate: District contacts reported that commercial real estate activity changed little in late January and February compared to December. Real estate contacts reported that construction activity increased, especially that of build-to-suit office space around Washington, D.C. Posted commercial rental rates were unchanged. Commercial vacancy rates remained steady, except in North Carolina and West Virginia, where they declined. Leasing agents reported that the availability of prime office space tightened in most District cities.

State Revenues: State government forecasters said that tax collections grew moderately in January, and they expected similar rates of growth in February. Real revenue growth remained strong in Maryland, North Carolina, Virginia, and West Virginia; somewhat weak in South Carolina; and flat in the District of Columbia.

Agriculture: Agricultural conditions in January and February remained better than a year ago, according to District farm analysts. Warmer-than-normal temperatures led to unusually high livestock survival rates and small-grain crop development. Fruit trees budded prematurely, however, increasing their vulnerability to a late freeze. Pastures were in excellent condition, leading to earlier-than-normal cattle grazing.

SIXTH DISTRICT - ATLANTA

Overview: According to contacts around the District, the Southeast economy continued to expand in early 1995, although reports showed some softness as well as strength. Most retailers reported flat February sales, but expect a good spring selling season. Tourism remains depressed in some areas, but business and convention travel are strong. Single-family home building and sales are still slowing, although the commercial real estate markets continue to improve. District wage and price pressures remain moderate.

Consumer Spending: District retailers report that late January sales were up on a year-over-year basis, while February sales were generally flat. According to merchants, however, bad weather was mainly responsible for February's disappointing performance. Most said that they were pleased with current inventory levels. Retailers expect improved sales this spring.

Manufacturing: Manufacturing activity is characterized by increases in some sectors offsetting scale-backs in others. Since the last Beigebook, both material and finished goods inventories have increased moderately for most firms contacted. Some regional producers report that weakness in the Mexican economy is slowing their exports and is forcing changes in capital spending plans. In Tennessee, auto industry plants are said to be operating at capacity but there is concern that any downturn in the national economy would have a quick adverse impact. Suppliers to the region's vehicle assembly plants, however, remain optimistic about the near-term outlook and expect orders to remain strong. Contacts report that both the steel and rubber industries in Alabama are doing much better than in the past few years. Some producers of telecommunications equipment continue to report strong activity. Increasing commercial construction is stimulating demand at regional firms that fabricate building materials, and manufacturers of lumber products report strong sales and orders. Paper and paperboard mills are operating at or near capacity limitations. One contact, however, thinks that paper industry activity is currently peaking and will begin a gradual decline over the next few months. Although there continues to be scattered reports of layoffs by small, niche-oriented apparel firms, a few large apparel producers are adding to employment rolls and expanding capacity as a result of strong product demand.

Tourism and Business Travel: While tourism is slumping in parts of the region, business travel is reportedly taking up some of the slack, keeping hotel vacancies at low levels. Strong convention activity continues on Mississippi's Gulf Coast and in central Florida; advance 1995 bookings for hotels in Atlanta are above year-ago levels. Overall, Florida tourism remains lackluster, although attendance at major attractions is reportedly slowly trending upward. In southern Florida, although Central and South American tourism remains strong, visits from other areas have not met expectations. Contacts report that this is due in part to competition from other destinations. Cruise ship bookings out of Miami are down sharply for some firms.

Construction: Most real estate contacts in the District report that single-family home sales slowed once again and fell below last year's strong levels during January and February. However, sales are described as respectable in most parts of the region. Realtors attribute the continued slowdown to uncertainty on the part of buyers, but most anticipate that demand will increase this spring. The majority of builders continue to be conservative, and, as a result, some realtors are concerned that a short supply of new homes in some areas will limit sales. Several areas continue to report a shortage of skilled construction workers, but wage pressures have eased from earlier in the housing cycle.

Commercial and multifamily real estate contacts continue to report strengthening markets. Several areas of the District report that strong demand is driving apartment construction. Large blocks of contiguous office space are reported to be scarce throughout the region. However, the majority of commercial construction remains build-to-suit with very little speculative space available. Realtors continue to be optimistic and anticipate that both commercial and multifamily markets will continue to strengthen during 1995.

Financial Services: Reports from bankers around the region about loan demand were mixed. Overall loan demand was steady. Home mortgage lending continues to slow as the housing sector cools off. Auto lending also has cooled appreciably. Consumer lending in general was reported as steady or slowing slightly, while commercial loans continue to rise slowly. However, several bankers noted that the economy was beginning to slow and they expect that a slowing would quickly affect new loan generation.

Wages and Prices: Manufacturing contacts generally report higher prices for materials and their own finished goods, but also anticipate less such price pressure in the future. Paper, paperboard, and newsprint prices continue to rise boosting activity by producers but adversely affecting publishers and others who use paper products. Producers of building materials, textiles, apparel, furniture, and plastic products, report increasing prices paid for raw materials, and more of these firms note that they are charging higher finished product prices than was the case late last year. Labor availability problems and wage pressures are limited to a few parts of the region and do not appear to be spreading at this time.

SEVENTH DISTRICT--CHICAGO

Summary. Seventh District economic activity generally remained brisk in early 1995. Signs of slower growth were concentrated in housing activity and the auto industry, but realtors, retailers and auto dealers generally remained optimistic about future sales growth. Overall manufacturing output continued to expand at a moderate to vigorous pace. Conditions in the agricultural sector held up better than expected, and land values posted the greatest annual increase in 1994 in the past six years. Surveys and reports from staffing services firms indicate that District labor markets remained tight, with little evidence of any significant change in employment growth since the fourth quarter.

Manufacturing. District manufacturing activity generally remained vigorous in early 1995, after closing out 1994 on a high note. The composite index of production components in purchasing managers' surveys for Chicago, Detroit, and Milwaukee showed continued robust expansion in output in January and February, in contrast to the slower growth indicated in the national data. Responses from auto suppliers and other cyclically-sensitive industries contributed to a slower (but still substantial) growth rate indicated in surveys in Western Michigan. At the same time, however, the production component of auto industry responses to the Detroit purchasing managers' survey actually increased in January and February. A large distributor of industrial materials stated that its own sales growth shows no sign of slowing. "If you asked me two months ago," this contact observed, "I would have expected a slowdown in the second half of this year. No longer." New capacity expansion projects by manufacturers have boosted this firm's growth in sales to construction contractors, while direct sales to manufacturers remained strong. An industry analyst reported that construction machinery sales remain robust in the face of higher interest rates, with greater strengthening in nonresidential construction spending expected to bolster industry sales growth further in coming months. A manufacturer of industrial equipment stated that demand has held up very well in recent months, although a higher share of customers choose to rent (rather than buy) equipment. A manufacturer of products linked to housing activity stated that orders slowed in early 1995; "our backlog is still huge, but at current order rates we can probably say good-bye to seven day workweeks."

Housing. Housing activity showed continued signs of slowing, but activity remained at relatively high levels and most realtors remained upbeat. An association of realtors in Wisconsin reported new year-over-year declines in transaction volume, but stated that "these figures are still pretty strong." One large realtor stated that sales normally pick up substantially in February compared to January, but did not do so this year, and this contact stated that "the last two rate increases seem to have put a damper on things." Nonetheless, "prices are still appreciating, we have plenty of buyers calling, and underlying demand remains strong." One of the largest realtors in the District reported that transactions strengthened somewhat in recent weeks, after rising interest rates and uncertainty about their future direction curtailed sales in the fourth quarter. "We've been a little surprised, and salespeople actually seem to be getting a little bullish again."

Retail Sales. Surveys and reports from large chains revealed little change in the pace of retail sales growth in the District. A large retailer reported that its underlying sales momentum was slightly stronger in recent months on a seasonally adjusted basis, led by continued strength in home furniture sales and new strengthening in women's apparel. This contact stated that consumers "are still shopping closely to need, as opposed to impulse." A major retail chain stated that its durable goods sales growth moderated in recent months, despite increased promotional activity. This contact stated that inventories have risen above plan in some product categories (including appliances), but the company has not yet reduced its orders below previous plans. A large manufacturer of durable goods stated that orders from dealers and retailers remained "amazingly strong" in recent weeks, with no sign of any change in momentum since late 1994. The majority of Michigan retailers anticipating future sales growth in a monthly survey reached its widest margin since last October, although some modest slowing in current sales momentum was also indicated.

Discussions with auto dealers were mixed, with the majority indicating some slowing in sales momentum in early 1995. One of the largest auto dealers in the District reported that traffic and sales turned busier in the latter half of February and early March, however, after slowing significantly in January and early February. This contact has not pulled back on orders from its earlier plans; "we've been able to get some extra vehicles, unlike last year when things were really tight, and we're taking everything we can get." This dealer expected sales to improve in coming months. Commenting on a competitor's financing promotion, this contact stated that "if we did that, we just couldn't get enough vehicles to sell." Another large auto dealer also reported weak sales in early 1995, partly due to vehicle price increases. This contact stated that sales would likely increase from 1994 to 1995, if interest rate changes stabilize or become less prominent.

Agriculture. Conditions in the District's farm sector are holding up better than had been expected. Hog prices have improved considerably from the inordinately low levels of last fall, permitting the most efficient producers to scratch out marginally positive returns. Moreover, unexpected trade developments with respect to China have strengthened crop exports and prices. Our survey of District agricultural bankers found farmland values continued to trend upward last fall, with the increase for all of 1994 the largest annual rise in six years. The average loan-to-deposit ratio at the end of 1994 was the highest for any year since 1979.

Labor Markets. District labor markets continued to strengthen in early 1995. Payroll employment estimates for District states were recently revised upward in the annual benchmarking process, and currently depict significantly faster employment growth in 1994 than in 1993. A recent survey by a large temporary help company showed further strengthening in Midwest employers' hiring plans in the first quarter of 1995, after this index climbed in 1994 to the highest annual average in the survey's 18-year history. This survey showed stronger hiring plans among manufacturers than the overall regional average, as has been the case since 1991, and purchasing managers' surveys also depicted stronger manufacturing employment growth in recent months. A survey by a large executive recruiting firm indicated that planned hiring of middle managers and professionals climbed in early 1995 to the strongest pace since 1984, with the North Central region showing the strongest hiring plans in the nation.

A large staffing services firm saw "no sign of a slowdown" in its own temporary placements growth in early 1995. Another staffing firm stated that "there's more business than we can handle, and a tremendous shortage of applicants." This firm expected somewhat greater upward wage pressure in coming months. A staffing firm specializing in professional services reported that robust billings growth continued in recent months. "Clients are more than willing to ante up" if a good candidate is successfully recruited. The manager of recruitment advertising for a newspaper stated that "right now, we couldn't kick the business out of here with a stick." Help-wanted advertising in an industrial materials newsmagazine climbed to record levels in recent weeks. A regional analyst stated that labor shortages in Western Michigan continued to intensify, and noted increasing reports of business expansion plans being constrained by worker shortages.

Prices. Manufacturing input price increases showed little sign of ebbing, while a growing number of industrial contacts suggested that output price increases grew more feasible. Large retailers continued to stress intense competition, however, with little if any room for price increases. The price components of the District purchasing managers' surveys remained high or increased further in early 1995. The Chicago price component climbed in February to its highest level since July 1988 and its second highest level since early 1980. A distributor of industrial materials stated that its prices continue to escalate, and perhaps at a higher rate; hikes in base metal prices continue, while product shortages have grown more frequent. A plastics industry analyst stated that resin prices were still climbing, with prices for some products reaching all-time highs. Several large manufacturers stated that the strengthening recovery in Europe may have eased pricing constraints facing manufacturers, as import supplies become increasingly tight. Commercial rents in the region have been on the rise as vacancy rates decline, according to realtors, with particularly strong rent increases noted for industrial space. A distributor stated that lumber prices have eased in recent months, however, citing slower demand from housing construction contractors.

EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy continues to grow, but at a slower pace. Many contacts expect this slowing to continue throughout the year. Nevertheless, the southern parts of the District are still experiencing relatively strong growth. Fewer reports of tight labor markets were noted this period relative to the last several periods. A quarterly survey of small firms indicates that almost one-quarter plan to add employees over the next three months. Residential real estate sales and starts have slowed after posting records in many parts of the District last year. Though loan demand is still generally strong, some pockets of weakness have developed; many District bankers are aggressively seeking retail deposits. Record cotton futures prices have buoyed District cotton producers.

Manufacturing and Other Business Activity

District firms, manufacturers in particular, report mixed conditions, with slightly more firms announcing consolidations and employment losses than previously. Northeast Arkansas, western Tennessee and northern Mississippi, however, are experiencing strong growth. An aerospace firm in the area recently received approval on a federal contract, enabling it to hire 130 workers this year and at least 500 more next year. An auto parts retailer and distributor reports that its corporate headquarters will move to Memphis this summer, bringing about 800 jobs. Firms in the food processing and household electronics industries will also expand in Memphis over the next few months. Spurred by the prior boom in home construction and sales, a maker of household appliances in southern Indiana added another 500 workers in January to meet demand. A contact in the construction-equipment industry reports strong sales because the earthquake in Kobe, Japan, disrupted the production of four Japanese construction-equipment manufacturers, leaving American firms with less competition.

Although fewer reports of tight labor markets were noted during this period relative to the last several periods, some pockets of tight conditions still exist. For example, a contact in the package delivery business reports that his firm is now offering a hiring bonus for the first time in 10 years to attract workers. Smaller firms in western Tennessee are also reporting difficulties in finding replacements for workers that leave. Much of this sentiment is shown in a recent quarterly National Federation of Independent Businesses (NFIB) survey of 265 District small firms, which found that 23 percent plan to add employees over the next three months, up from 20 percent a year earlier.

Little Rock, southern Illinois and St. Louis are bearing the brunt of consolidations in the District. For instance, a merger will close the corporate headquarters of a St. Louis-based food processor, costing about 450 jobs. A Little Rock producer of medical supplies will move to South Carolina, eliminating 300 jobs. A steel company laid off about 100 southern Illinois employees as part of a cost-cutting program. The overall mood in the District is one of cautious optimism; most contacts continue to see growth in their areas, but at a slower pace. Many also believe that this slowing rate of growth will continue throughout the year.

Inventories

The quarterly NFIB survey found that nearly 19 percent of firms plan to add to their inventories during the next six months, about the same as one year ago, while slightly more than 9 percent of firms plan to decrease their inventory levels. Of those firms planning to add to their inventories, a disproportionate share are in the retail sector, with very few in the wholesale sector.

Real Estate and Construction

Residential construction and sales have slowed from their 1994 record levels in most parts of the District. January building permits in St. Louis, Memphis, Louisville and Little Rock are down substantially from the same period one year ago. Most contacts continue to cite rising interest rates as the primary cause of this decline. Some parts of western Kentucky, however, report a strong start to 1995 after experiencing declining numbers in the final quarter of last year. Shortages of starter and mid-priced houses are reported in Little Rock and central Kentucky.

Banking and Finance

Most contacts continue to report strong loan demand, although some areas of the District have experienced slowdowns. Commercial loan demand is generally stronger than consumer loan demand. Residential mortgage loan demand is still tapering off. Many banks are aggressively pursuing retail deposits by raising deposit rates on savings accounts and CDs. Some bankers note that funds that were previously leaving banks for mutual funds and other investment vehicles are being funneled back into deposits.

Agriculture and Natural Resources

Strong domestic demand for cotton and reduced foreign supplies have precipitated record high prices in the futures markets. Several contacts expect cotton prices to stay at relatively high levels throughout most of the summer. This prospect has caused a greater-than-average number of producers to sell forward their 1995 cotton crop. By most estimates, Mid-South cotton producers will increase planted acreage between 10 percent and 15 percent this spring. Elsewhere, Southern pine lumber mills report that orders are running more than 15 percent above last year on a year-to-date basis.

NINTH DISTRICT--MINNEAPOLIS

In late winter, the economy of the Ninth District remains strong, but consumers show increasing caution, particularly in regard to home and vehicle purchases. Manufacturers remain active as do construction firms. Iron and copper mining is strong. Paper production is going full steam. Weather and soil moisture conditions are excellent going into the new crop season and the mild winter has been beneficial for livestock producers. Office and commercial real estate rental markets are tight.

On the other side of the coin, sales of general merchandise are reportedly slack and auto dealers across the district describe mild to sharp drops in sales. Some tourist businesses suffered from lack of snow. Residential construction is slower than the previous two seasons.

Labor markets in most cities remain tight and skilled manufacturing workers are particularly hard to get. However, reported wage increases are only marginally higher than those in the preceding three years. Some raw material and intermediate goods prices continue to rise, although reports of delays in delivery have moderated from last fall. Lumber prices have declined.

Manufacturing

Manufacturing is now the economy's bellwether. Directors, news media, advisory council members, electrical utilization figures and industry sources all describe the strongest manufacturing sector in recent years. Labor shortages are most pronounced in this sector, and the most common reports of price increases concern purchased inputs for manufacturers.

Natural resource industries

The paper industry is coursing ahead with full sails after spending three or more years in the doldrums. Sales of all grades of paper from coated magazine stock to newsprint and packaging are reportedly very strong and most mills are running at capacity. One mill in Michigan's Upper Peninsula is investing over $100 million in a new paper machine and related plant expansion. Other mills reportedly are making improvements to eliminate bottlenecks. Lumber prices have softened somewhat from 1994 levels, reportedly due to some slackening in demand for residential construction and to higher than anticipated production in the Northwest.

Strong demand from the steel industry and high copper prices have been a boon to the two major components of Ninth District mining. Iron mines on both shores of Lake Superior are running at capacity and at much higher levels of productivity than prevailed before painful restructuring that occurred in the 1980s. One Minnesota mine expects to produce 14.5 million tons in 1995 with less than 1,500 workers, beating its previous record of 14.1 million tons set in 1981 with 4,200 workers. A new copper mine in Wisconsin is producing at a higher rate than anticipated and older mines are reportedly working at capacity.

Construction and real estate

Commercial construction continues to outpace residential work in many areas of the district. Warehouse construction is particularly good, in part as a result of changing structural patterns in wholesale-retail distribution, but also due to growing general demand. One Minneapolis-St. Paul manufacturer noted that warehouse lease rates have increased by nearly 50 percent since last year. Commercial construction is reportedly strong in Fargo, N.D., Sioux Falls, S.D., and other urban areas. A Minnesota plumbing wholesaler said that requests for quotes for bidded projects were setting records.

Residential construction is apparently at a plateau, which building association officials describe as good, but is clearly below the levels achieved in the preceding two seasons. Fargo, N.D., and Sioux Falls, S.D, are areas of particular strength while western North Dakota is one area where residential work is reportedly much stronger than commercial. One Montana source noted a shift from retail and commercial work to government and industrial projects. Reports on sales of existing housing vary between localities but on balance such sales appear depressed from normal levels. Higher mortgage interest rates are cited by both builders and realtors as the principal cause of slowing in their businesses.

Agriculture

Fine weather and moderately stronger prices are setting a mood of cautious optimism as farmers approach the 1995 spring planting season. Livestock prices remain well below year-earlier levels but above the troughs reached in late 1994. Cattle numbers on January 1 were generally 1 percent to 2 percent above 1994's already high levels, thus promising no early price relief. Crop prices are similarly below early 1994 levels but up from levels prevailing earlier in the winter.

The Minneapolis Fed quarterly survey of farm bankers reveals demand for all types of loans, together with farm income and spending, as slightly below normal levels. Few bankers report customers having problems with debt service, and feeder livestock and machinery loan volumes are described as below usual levels.

Consumer spending and tourism

The most marked turn in the economy appears to be in retail sales. After a good holiday season, sales by general merchandisers in January and February were barely above year-earlier levels and news reports describe a retail slump. One North Dakota regional mall manager described traffic as "so-so." Another in South Dakota described business as "a bit slow" but noted that increased competition due to retail sector overbuilding might be the cause rather than consumer reluctance.

"Auto sales are very soft," says a South Dakota dealers' association representative, citing higher interest rates and caution by farmers as the principal reasons. After a strong showing through most of 1994, auto sales have declined in all parts of the district. During February, registrations of new passenger cars and light trucks in Minnesota were down about 6 percent compared to year earlier levels. Similar contractions are reported in the Dakotas and Wisconsin dealers confirm slowness in their region.

Winter tourism has generally suffered from sparse snow cover over much of the district. Snowmobiling and cross country skiing are down from last year in many areas. However, the Upper Peninsula of Michigan and areas of northern Minnesota with good snow conditions report very good business. South Dakota and Minnesota officials report steady traffic to downhill ski areas and in Montana most ski resorts have good snow and good business. Cuts in Amtrak service will dampen activity in North Dakota and Montana, according to a resort executive.

Employment, wages and prices

Labor markets remain tight as unemployment rates in several metropolitan areas are below 4 percent. Involuntary overtime has become an issue for some manufacturing and mining firms. Grievances have been filed at one Minnesota mine where many workers have been putting in 60 hour weeks on a regular basis. Some Minneapolis- St. Paul machine shops have foregone bidding on some jobs because of their inability to hire new machinists. Plumbers, pipefitters and other skilled building tradespersons are also reportedly in short supply. In spite of such apparent tightness, few sources report sharp wage increases.

Prices have risen sharply for paper products of all types, packaging materials and commodity chemicals such as chlorine, caustic soda and methanol. Prices of intermediate goods including hardware, machined assemblies and plastic components also are up, but delivery delays for steel and other materials have abated. Nor is there much evidence of price increases at the final goods level. Petroleum product prices are essentially unchanged from a year ago.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy continued to grow at a strong pace over the past month. Retail sales improved and manufacturers continued to operate at high levels of capacity. While single-family homebuilding slowed further, multifamily construction picked up in some parts of the district. The district's winter wheat crop was generally in good condition, and recent gains in crop and livestock prices have brightened the outlook for district farm incomes. While materials prices for manufacturers continued to rise throughout the region, upward pressure on wages was less prevalent. Retailers held prices steady despite increases in costs of goods and labor.

Retail Sales. Retailers report that sales improved over the past month and were ahead of year-ago sales. Much of the improvement, however, can be attributed to recent clearance promotions. Unseasonably warm weather continued to hamper sales of outerwear and other seasonal merchandise. Although retailers trimmed inventories, current inventory levels are generally considered satisfactory. Most auto dealers report slightly declining sales over the past month, due primarily to higher financing costs for consumers. Nevertheless, auto dealers expect sales to pick up in the spring.

Manufacturing. Most firms continued to operate at high levels of capacity last month. Manufacturing lead times increased but are expected to shorten in the months ahead. Firms are generally satisfied with current inventory levels, although a few may boost inventories slightly to meet demand or to circumvent increases in input prices. For manufacturers with significant export sales, growing sales to Europe last month appeared to offset declining sales to Mexico.

Energy. Although crude oil prices firmed somewhat in recent weeks, low natural gas prices continued to curb activity in the district's energy industry. The average number of drilling rigs operating in district states fell in January and early February. As a result, the region's drilling activity remained below its year-ago level for the ninth consecutive month.

Housing. Builders report a downturn in housing starts from both last month and a year ago. The downturn was concentrated in single-family starts, while multi-family starts rose slightly. Most respondents expect building activity to remain sluggish during the coming months. Some builders report sales of new homes slowed over the past month but remained slightly ahead of their year-ago pace. Builders report materials were available with few delays. While mortgage demand declined considerably due to higher interest rates, most lenders doubt that demand will continue to deteriorate.

Banking. Loan demand at reporting banks increased slightly last month. Banks report higher demand for commercial and industrial loans, consumer loans, and commercial real estate loans. Demand was largely unchanged for home equity loans, construction loans, and agricultural loans. Most banks, however, report a decline in home mortgages. Loan-deposit ratios were constant to up from the previous month, while changes in security investments were mixed.

Many respondents raised their prime rate last month but expect the rate to hold steady in the near future. While consumer lending rates increased, most banks do not expect additional changes in the near term. Lending standards remain unchanged.

Changes in total deposits among reporting banks were mixed. IRA/Keogh accounts rose, while demand deposits and NOW accounts fell. Changes in money market deposit accounts and small time and savings deposits were also mixed.

Agriculture. The district's rangeland and winter wheat fields were generally in good condition following a warm, dry winter. Forage supplies for grazing livestock were ample. Timely spring rains are needed, however, to replenish soil moisture supplies.

District bankers report brisk demand for farm loans, although it appears that many farmers used new loans to fund operating costs and past debts. Relatively little borrowing during the month was for expansion of farm businesses, especially among livestock producers.

Spring credit reviews at district agricultural banks reveal a sharp drop in profits for livestock producers in 1994 and a modest rebound for crop producers. Big crop yields bolstered incomes for crop producers, despite lower crop prices. Weak livestock prices triggered losses for livestock producers. Recent gains in crop and livestock prices have slightly improved the outlook for district farm incomes in 1995.

Prices and wages. Several retailers report the costs of goods and labor increased last month, but the increases were not passed on to customers. Manufacturers report input prices increased and were up from a year ago. The steepest price increases were for chemicals, paper, and rubber. While manufacturers in some parts of the district report tighter labor markets, only a few report upward pressure on wages. A late-January survey of manufacturing plants across the district showed a somewhat larger proportion of respondents reporting increases in finished product prices than in October, when the last survey was taken. Builders in Kansas City and Denver continued to report increases in the prices of building materials, while materials prices in other parts of the district either leveled off or declined.

ELEVENTH DISTRICT--DALLAS

The Eleventh District economy continued to expand in late January and February but at a slightly slower pace. Manufacturing orders rose, and activity at business service firms remained very strong. Retail sales slowed, however, and some contacts said that Texas sales were among the weakest in the nation. Construction activity was steady as an increase in commercial construction offset a decline in homebuilding. Loan demand continued to rise. Energy activity declined seasonally and remained below last year's levels. Agricultural production was better than expected. Despite the growth in the district economy, respondents in several industries said expectations of a slowdown in the U.S. economy and uncertainty over the effects of the Mexican peso devaluation had reduced their optimism.

Eleventh District respondents continued to report **price** and **wage** pressures in some industries, but several manufacturers expected price pressures to ease in the coming months. In the service industry, fees continued to rise for temporary, consulting and legal services. Trucking fees were down because Texas intrastate trucking deregulation resulted in increased competition. In manufacturing, selling prices were up for paper products, raw timber and cement. Contacts in the petrochemical, fabricated metals and glass industries said prices had likely peaked and expected prices to soften in the spring. Retailers said prices were flat to down despite increased cost pressure from suppliers. Oil prices were up slightly while natural gas prices had stabilized at a low level. In agriculture, cotton prices were up and livestock prices remained low. Because of recruiting difficulties, wage pressures rose in the temporary services, trucking and fabricated metals industries.

Manufacturing orders continued to rise, but respondents expressed less optimism that economic activity would continue to increase at the current pace. Demand continued to be strongest for electronics, paper, petrochemicals and construction-related materials, while apparel orders weakened. Semiconductor and computer-related orders rose at a strong pace and selling prices remained stable. The demand for paper and boxes continued to increase despite falling orders from Mexican customers. Orders for construction-related manufacturing products picked up as commercial construction increased. Fabricated metals producers reported very strong demand and were finding it difficult to hire qualified workers. Cement orders rose due to warmer-than-usual weather and significant construction backlogs. Demand for lumber remained unchanged overall, but orders from commercial contractors were up. Excluding jeans, apparel orders softened, a result of slower retail sales. Contacts said higher prices for cotton and paper products had raised costs, although only a small portion was passed on to customers. Garment finishers said that business was steady. Orders for food products rose at a moderate pace and sales of low-fat products were strong. Demand continued to be extremely strong for petrochemicals but additional capacity had dampened price pressures. Demand for refined products was robust, with sales of gasoline and other products running at levels above a year ago. The exception was fuel oil which did not sell well because of warm winter weather in the Midwest and Northeast. Refiners shifted production toward gasoline which drove down prices and kept margins thin. Orders for oil-field machinery were reported to be good, although the rig count slipped as drilling declined seasonally.

Economic activity at **business services** firms continued to rise at a robust pace. Demand for temporary services was strong and respondents said that recruiting problems remained. Demand for management/consulting services rose as companies streamlined computer systems and prepared to enter international markets. Legal firms said activity associated with mergers and acquisitions and initial public offerings was still strong, but litigation business was flat. **Transportation services** respondents said that air cargo volume rose and trucking demand was flat despite reduced shipments to Mexico.

Retail sales slowed in February, and sales along the Texas-Mexico border continued to decline. Several national retailers said that Texas sales were among the weakest in the country. Sales growth was reported to be slower than expected, and contacts said they were less optimistic than a few weeks ago. One retailer said the weak Mexican peso appeared to be affecting sales throughout Texas. Selling prices were reported to be stable or lower, despite increased cost pressure from suppliers. Auto sales were also slower in February, and respondents said inventories were too large.

Construction activity in the Eleventh District was steady, as rising commercial activity continued to offset declines in single-family construction. Home builders cut back on construction in January and February as they tried to keep the supply of new homes in line with lower buyer demand. Despite the cutback in building activity, inventories of new homes were rising. Commercial construction remained robust and border contacts said that many projects are still in the works despite the Mexican peso devaluation. Rising demand for industrial, retail and office space helped boost commercial builders' expectations of growth in 1995.

Eleventh District **bankers** said overall loan demand grew steadily. Higher interest rates continued to curb demand for residential construction projects, but lending for industrial projects picked up. Competition from alternative credit sources kept consumer lending flat.

District **energy** producers said activity was generally unchanged. The domestic rig count fell seasonally and remained below year-ago levels, but international activity improved with better oil prices. Oil prices were between $18 and $19 per barrel over the past month which is slightly higher than reported in the last beige book. Natural gas prices stabilized at about $1.40 per Mcf.

Favorable weather boosted the **agricultural** harvest. District farmers said the yields and quality of most crops were good. Cotton production was raised by strong domestic demand, although higher prices curbed international orders somewhat. Cattle prices remained low, keeping profit margins just above break-even levels.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Economic activity in the Twelfth District continues to strengthen modestly, although there are reports of slowing in some sectors. The strengthening partly reflects some pick-up in California's still moderate recovery. Activity continues to accelerate in Oregon, but growth is easing from high levels in the intermountain states. On a sectoral basis, retail sales growth slowed in January and early February, while service sector firms report generally strong demand and some upward pressure on input prices. Computer, machinery, and paper manufacturers report strong domestic and foreign demand, while lumber and aerospace firms show continued weakness. Agricultural conditions generally are good, with strong exports to Asia offsetting declining sales to Mexico. Residential real estate activity has slowed noticeably in most areas, but commercial markets remain strong in the intermountain states and the Pacific Northwest. District banks report slow deposit growth, but generally strong loan demand.

Business Sentiment

Twelfth District business leaders expect national economic growth to moderate over the next year. About three-fifths of survey respondents project national output growth to slow to the long-run historical average pace, after above-average growth last year. One-third of business leaders expect an increase in the unemployment rate during the next year, a marked change from the last report when few projected a worsening in unemployment. Business leaders expect continued strong growth in District exports to Asia and Europe, but weakness in sales to Canada and Mexico.

Retail Trade and Services

District retailers report some slowing of sales growth in January and early February. Food store sales were slow and prices have yet to rise despite large increases in packaging costs. Consumer soft good sales also were reported slow, with prices flat or declining. New car sales in Idaho in December and January were reported down 9 percent from a year earlier. Dealers have increased the use of rebates and other incentives to bolster sales. Retailers close to the Mexican border near San Diego report sharp declines in sales since the devaluation of the Mexican peso. In Idaho and Utah, reports indicate that entry-level retail workers are increasingly difficult to hire, and wages have risen 3 to 3 1/2 percent.

Many District service providers report continued strong demand. Software and communication firms in Washington continue to experience strong growth, but note some upward pressure on input prices. Newspapers report excellent demand, but newsprint prices are sharply higher. Lower health care premiums and slower growth in wages for health care workers are reported in the Pacific Northwest. Hotel occupancy remains above 80 percent in Salt Lake City, pushing room rates up 6 to 8 percent. In Southern California, hotel occupancy and room rates are beginning to increase slowly.

Manufacturing

Manufacturing activity remains mixed. Tool and machinery manufacturers report continued strong domestic and export demand, with prices rising for heavy construction equipment. Pulp and paper product orders and prices have increased. Newsprint manufacturers are operating at high levels of capacity utilization. Conversely, lumber sales continue to slow and prices are well below year earlier levels. Aerospace manufacturing remains weak, as lower production at Boeing is expected to lead to layoffs at its suppliers in the region this year. An additional 3,700 layoffs are expected at the Hanford nuclear facility in Washington by September 1995.

Agriculture and Resource-Related Industries

Agricultural and resource industry conditions generally are good. Total District agricultural exports continue to grow, as rising exports to Asia offset slowing sales to Mexico. Arizona and California cotton producers report high production, prices, and export sales. Washington apple exports are reaching Japan for the first time, but sales to Mexico have slowed substantially. Cattle prices have risen, but reports from Arizona indicate that beef exports to Mexico have virtually stopped. District farmers report lower feed grain prices and significantly improved water availability, but pesticide and chemical prices have increased. Farm worker wages are reported flat in most areas.

Timber exports to Japan have increased in response to demand from the Kobe earthquake rebuilding effort. Electricity prices in the Pacific Northwest are expected to remain low through the summer because of abundant hydroelectric supplies.

Real Estate and Construction

Residential home sales and construction activity are reported to have slowed in most areas. Even with the recent slowing, the level of activity remains high in Arizona, Idaho, Nevada, Oregon, and Utah; upward pressure on construction materials prices is reported in those markets. In California, home sales are reported to have slowed from 1994's pace, but sales and construction activity are expected to strengthen during the remainder of 1995.

Commercial markets are strong outside of California. In Salt Lake City, low office, industrial, and retail vacancy rates are spurring increases in rents and building activity. In downtown Portland, Oregon, office vacancy rates are the lowest in the nation, and rents are reported rising. Likewise, commercial and industrial office vacancy rates are falling and rents are rising in the Puget Sound area. Commercial office vacancy rates remain high in Los Angeles and San Francisco, and little new construction is reported, but some improvement in activity is expected during 1995.

Financial Institutions

Banks in most parts of the District report slower deposit growth, but generally good loan demand. Consumer and business loan demand is reported strong in Southern California. In Northern California, loan demand is weaker, with competitive pressures on loan pricing and underwriting criteria. Some reports from Oregon indicate a recent slowing in loan demand. Upward pressure on wages are reported for entry-level workers at Oregon banks. Loan demand and quality remain good in Utah.