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Summary of Commentary on ______________________

Current Economic Conditions

by Federal Reserve District

November 1995

SUMMARY OF COMMENTARY ON CURRENT ECONOMICS CONDITIONS

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SUMMARY[1]

Reports from the twelve Federal Reserve Districts suggest that national economic activity continues to expand, but at the somewhat slower pace reported in the last beige book. Most district banks indicated little change from the last report; however, Cleveland and New York reported slower growth, and Chicago reported moderating growth in manufacturing. Many districts noted that retail sales appeared stronger in early November following widespread weakness in October. Districts reporting on initial holiday sales found mixed conditions. Dallas and New York said sales were lower than expected, while Atlanta, Chicago and Cleveland reported encouraging holiday results. Most reports of auto sales were weaker.

Manufacturing production continued to rise, with strong demand for high-tech products in the Boston, Dallas, Minneapolis and San Francisco districts. However, several district banks reported slowing in some manufacturing industries. Single-family construction activity was mixed, but commercial real estate and construction activity remained a bright spot in many districts. Loan demand increased in most Federal Reserve districts, with strong demand for commercial and industrial loans. Demand for most business services remained strong.

Rising crop prices boosted farm income in Chicago, Kansas City and Minneapolis, yet higher feed costs and low cattle prices continued to squeeze margins for ranchers in some districts. Energy activity was mostly unchanged, despite a cold snap in the Midwest and Northeast that caused prices for natural gas, heating and crude oil to rise.

Most Federal Reserve districts reported tight labor market conditions for both skilled and unskilled labor. Several districts, including Chicago, Dallas and Minneapolis, reported rising wage

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[1] Prepared at the Federal Reserve Bank of Dallas from information collected before November 27th, 1995. This document summarizes comments received from businesses and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

pressures for entry-level positions. There were a few reports of price increases in intermediate goods, but very few for final goods.

Consumer spending and retail trade

Many districts reported weak retail sales in October, but most said sales appeared stronger in early November. Initial holiday sales were mixed. Of the districts that reported on day-after-Thanksgiving sales, Dallas and New York said contacts were somewhat disappointed that sales did not meet expectations, while Atlanta, Chicago and Cleveland said sales had met or exceeded retailers expectations. Sales of apparel and other soft goods continued to be weaker than sales of hard goods. Contacts in Atlanta, Boston, Chicago, Minneapolis and Philadelphia said sales were strongest for computers, electronic equipment and related goods. Discounting and promotions were common across districts.

Vehicle sales weakened over the past six weeks according to several district banks. The Kansas City and St. Louis districts said a shortage of popular models constrained sales. Auto dealers in Philadelphia said sales of new model cars have not met expectations, and dealers in Chicago noted sports/utility vehicle sales were outperforming auto sales. Dallas was the only district reporting improved sales.

Manufacturing

Most district banks said production rose during the past six weeks. Most notable was an increase in orders for high-tech products--such as computers, telecommunications equipment, semiconductors, electrical equipment and medical products--reported by the Boston, Dallas, Minneapolis and San Francisco districts. There were some reports of slower growth in a few industries, however. Several districts, including Boston, Dallas, Philadelphia and St. Louis, noted weaker orders for apparel. Boston and Dallas also said demand for packaging products slowed. The Boston and San Francisco districts reported softer orders for some construction-related products.

Chicago said new orders had slowed in all industries except those related to auto manufacturing.

Services

In those districts reporting on the service sector, contacts suggested continued strength in demand for business services. Some districts indicated increased demand for temporary services, and contacts in Chicago, Dallas and Richmond said they were having difficulty filling temporary positions. After strong growth throughout the year, demand for accounting and legal services in the Dallas district eased somewhat, according to contacts. Tourism remained strong in the Atlanta district, despite hurricane-damaged beach properties in the Florida Panhandle and the recent closing of New Orleans' land based casino. San Francisco also reported strong tourism but said the warm weather may hurt ski areas.

Real estate and construction

Housing. Single-family construction activity was mixed. New home sales and construction were strong in the Dallas and Minneapolis districts. Residential activity was mixed among states in the Boston, New York and San Francisco districts. The pace of home sales slowed in the Chicago district after strengthening in recent months. The Richmond and St. Louis districts reported declines in home construction since the last beige book report.

A few districts reported increases in multifamily construction. In the Atlanta district, low vacancy rates and higher rents were boosting new apartment development. The Kansas City and St. Louis districts also reported a pickup in apartment construction over the past six weeks.

Commercial. Commercial real estate markets strengthened across much of the country in October and November, and were a bright spot for several districts. High demand and low vacancies boosted nonresidential construction in the Atlanta, Chicago, Minneapolis and St. Louis districts. Strong demand for prime office space pushed up rents in the Atlanta, Dallas and Richmond districts. New York was the only district bank that reported weaker commercial real estate conditions. Leasing activity fell in downtown Manhattan in October, and the midtown vacancy rate rose slightly as continued strong leasing activity failed to offset a sharp rise in available space.

Financial institutions

Loan demand continued to increase in most Federal Reserve districts in late October and early November. Lending was strongest in the Dallas, Kansas City and Philadelphia districts. Most district banks said commercial and industrial lending remained strong and some said mortgage refinancings had picked up. The exceptions were the Cleveland, New York and St. Louis districts which reported a slight moderation in loan demand growth. There were some reports of rising past due loans and consumer delinquencies in these districts, but bankers said current levels were not worrisome.

Agriculture and natural resources

Although several districts reported below normal crop yields, strong export demand and higher crop prices suggest improvement in farm income. Corn and soybean yields remained below last year's levels in Chicago and Kansas City, and dry weather in the Dallas and Kansas City districts impeded the growth of some crops such as winter wheat. The San Francisco district said sales of agricultural products were high and that exports were above last year's levels. Higher grain prices pushed up feed costs, squeezing margins for ranchers who continue to suffer from low beef cattle prices.

The Dallas and Kansas City districts reported little change in energy markets, despite a weather-related rise in natural gas, heating oil and crude oil prices in recent weeks. Natural gas spot prices rose from $1.70 per thousand cubic feet in mid-October to $2.10 per thousand cubic feet by late November. Wholesale heating oil prices rose by 5 cents per gallon as colder weather hit the Midwest and East Coast. The price increases were not enough to encourage new drilling activity, however. Mining and drilling contacts in the Minneapolis district were pleased with current levels of activity.

Labor markets and wage pressures

Most Federal Reserve districts reported tight labor market conditions for both skilled and unskilled workers. San Francisco reported shortages of construction workers. Chicago, Dallas and Richmond cited difficulty filling temporary service positions. Boston, Cleveland and Dallas noted a shortage of workers in high-tech jobs such as software development, systems analysis and electrical engineering. Richmond said there was a general scarcity of labor, particularly in skilled manufacturing positions. There were widespread reports across the districts of labor shortages for unskilled workers, and entry-level compensation was reportedly rising in the Chicago, Dallas and Minneapolis districts. Only the Atlanta district noted subsiding wage pressures.

Price pressures

There were a few reports of rising prices for intermediate goods from district banks, but overall price pressures were minimal. San Francisco reported higher prices for industrial equipment and machine tools, while Kansas City and Minneapolis said prices were rising for aluminum and packaging materials. However, paper producers and corrugated box manufacturers in Dallas said they were lowering selling prices, and Boston noted a recent decline in paper prices. Petrochemical and steel prices continued to come down according to some district reports. Retailers in several districts reported heavy discounting for the holiday season. Contacts in the temporary services industry said despite wage pressures they could not raise fees because of fierce competition.

FIRST DISTRICT - BOSTON

Economic growth continues at a modest pace in the First District. Retailers report moderate sales gains overall in recent months, with very uneven sales patterns from week to week. Many manufacturers in the region have experienced solid growth in sales and orders compared to a year earlier, although one-third report no growth. Input and final prices are widely reported to be stable or stabilizing. Residential real estate markets in most of New England are "normal"; in Connecticut and Rhode Island, however, home sales and prices are weak. Investment management companies are doing well.

Retail

Most retail contacts in the First District express disappointment at the "fits and starts" of sales activity in October and November. Respondents -- apparel and hard-goods retailers alike -- are relying heavily on promotions to achieve sales gains, ranging from 1 to 5 percent, compared with year-earlier levels. Even an exception, a specialty apparel chain posting a double-digit increase in early November, reports only 1 percent growth in October. Best-sellers continue to be jewelry, accessories, and non-apparel, such as video equipment. Off-price discounters report sluggish sales of winter clothing this fall. Inventories are slightly above year-ago levels, in anticipation of holiday sales. Retailers view the approaching season with uncertainty, however, counting on major promotions to achieve sales gains of 1 to 6 percent over 1994 holiday sales.

Vendors' prices are reportedly stable, including the price of cotton goods, which rose significantly earlier in the year. Competition continues to drive down retail prices in mall stores. Most contacts plan little or no growth in employment and capital spending in 1996, as they struggle to maintain gross margins and increase profits.

Manufacturing

Two-thirds of First District manufacturing contacts report that recent sales are solidly ahead of year-ago levels; the remainder indicate a flat trend. Demand has increased substantially for machine tools and industrial equipment, computer/electronics products, health care supplies, and a range of building products and equipment. By contrast, demand for automotive products, some construction-related products, and packaging is softening, and apparel and other consumer goods markets remain lackluster. Some First District manufacturers have managed to increase their market share in these industries, however.

Manufacturers generally note recent stabilization or reduced inflation in materials prices, including metals, petrochemicals, paper, and cotton. A couple of contacts remain concerned that sharp materials price increases over the past year have severely reduced margins. Output prices are reported to be mostly flat, with some selective increases.

Except for businesses with very rapid growth, manufacturers have made only modest changes in the size of their work force over the past year and anticipate little net change in coming months. Overall wage inflation remains modest, although salaries of information systems and other specialists are being bid up somewhat. In addition, a couple of contacts are experiencing some staffing difficulties as a result of previous decisions to hold down wage growth. Capital spending plans vary widely, although almost all companies plan at least some increase.

Manufacturing contacts generally foresee slow macroeconomic growth with little inflation. Some believe they will do well in this environment as a result of good product offerings. Others are concerned about continuing bankruptcies among retailers, the future course of fiscal policy, and international competition.

Residential Real Estate

Market conditions remain variable across New England, although the residential real estate market is generally reported to be in good shape. Inventories are adequate but not excessive, prices are flat, and credit is widely available. In fact, one broker reported that she had recently obtained credit at good terms for clients who had just emerged from bankruptcy or had been laid off. Home sales are mostly flat versus last year, but overall activity is said to be at a "normal" level compared to historical trends. Many sales are still taking place at the bottom end of the market.

Activity in Vermont is improving again, with one respondent noting a significant increase in buyer interest in the last month. Real estate sales and prices in Connecticut and Rhode Island, however, have not improved and remain at low levels. Inventories are particularly high in those states.

Nonbank Financial Services

Investment management firms report large increases in assets under management in the last six weeks. The increase was caused mostly by rising market values of domestic stocks and bonds and, to a lesser extent, by new investments. Three-quarters of the new investments flowed into equity funds, with the rest going into bonds. This pattern contrasts with that of a year ago when the bulk of new funds went into bonds. Equity investments were dominated by domestic stock funds. Sales of international stock funds are reported to have reached a new low and emerging markets are in net liquidation. All respondents have recently increased employment, mostly in the areas of administration and technology, and plan further increases.

SECOND DISTRICT--NEW YORK

Reports on economic conditions in the Second District were mixed to soft in recent weeks. Although year-over-year growth in retail sales declined sharply in October, it rebounded in early November. The residential real estate market weakened in New Jersey but improved slightly in New York state in recent weeks; commercial vacancy rates in Manhattan edged up in October. New York's unemployment rate declined in October, while New Jersey's edged up; payroll employment growth improved a bit in both states. However, three of New Jersey's largest employers recently announced plans to down-size. Finally, demand for loans at small to medium-sized banks weakened slightly in November, and consumer loan delinquencies rose.

Consumer Spending

Retail sales growth, on a year-over-year basis, slowed sharply in October. Virtually all contacts reported that sales were well below plan, ranging from an outright decline to a 5 percent increase. Weakness in seasonal apparel was attributed to unseasonably mild weather, but sales of home-related goods were also sluggish. In early November, however, business picked up, with most retailers reporting gains of 3 to 5 percent from a year earlier. The rebound was attributed to colder weather, which boosted apparel sales; however, sales of hard goods remained relatively weak. Sales over the Thanksgiving weekend were reportedly on the low side in the New York City area, although one contact attributed the weakness to the shift in the observance of Hanukkah, which falls much later this year than last.

Most of the retailers surveyed say that present inventory levels are about right, although two report they are "on the high side". Most contacts see more downward competitive pressures on selling prices than last year, while prices paid for merchandise were flat. Retailers' expectations for holiday-season sales range from 2 to 6 percent above last year's levels. However, according to a survey of holiday spending plans conducted every November, consumers in the region are budgeting 1 percent less, on average, for gifts in 1995 than in 1994.

Construction & Real Estate

Manhattan's commercial real estate market weakened slightly in October. The midtown vacancy rate rose to 14.0 percent from 13.7 percent, as continued strong leasing activity only partially offset a sharp rise in available space. In downtown Manhattan, leasing activity fell in October, nudging the vacancy rate up 0.1 point to 25.7 percent.

Residential real estate markets are mixed. Homebuilders in down-state New York report that new home sales have been fair this year and have reportedly picked up a bit in the past month. Builders in upstate New York report modest improvement in sales activity in recent weeks but still cite conditions as poor--inventories of unsold homes remain substantial, home-buyer traffic is described as "a trickle", sales are down sharply from 1994 levels, and home prices are flat to lower than a year ago.

However, New Jersey contacts report further softening in that state's housing market. One describes new home sales as "dead in the water", despite sharp declines in mortgage rates, and characterizes traffic as "all but non-existent" since Labor Day. Another reports that year-to-date sales are running 25 percent below 1994 levels, with moderate traffic but "no sense of urgency to buy" in recent weeks. Builders attribute the slowdown to anxiety, among potential home-buyers, over a series of recent corporate down-sizing announcements.

Other Business Activity

New York state's unemployment rate declined from 6.8 percent in September to 6.3 percent in October, reflecting a drop in the labor force; New Jersey's rate edged up from 5.7 percent to 5.8 percent. Both states reported above-trend growth in payroll employment in October. However, three large New Jersey-based firms--AT&T, Prudential, and PSEG (Public

Service Electric & Gas)--recently announced down-sizing plans that could have a significant effect on state employment. On a more positive note, with the securities industry showing strong profits in 1995, year-end bonuses on Wall Street are expected to be up substantially; one top firm has already announced a sizable increase.

Buffalo purchasing managers report that business conditions in the manufacturing sector continued to strengthen in October, but their counterparts in Rochester report that growth slowed. New York City purchasing managers report that conditions in the manufacturing sector held steady, but that overall growth accelerated. The same surveys also show commodity price pressures increasing slightly in New York City but easing substantially in Buffalo and Rochester.

Financial Developments

Demand for nearly all types of loans was slightly weaker in November than in October, according to the senior loan officers surveyed at small and medium sized banks in the District. The consumer loan segment suffered the sharpest slowdown, with demand lower at about 30 percent of the banks, and steady at about 50 percent. The residential mortgage segment is the only loan category that did not weaken. Demand for these loans is up at about 30 percent and steady at another 30 percent. Refinancing activity--in contrast to earlier reports of no activity--is starting to increase, and is now higher at about 12 percent of the banks.

The number of loan delinquencies turned up in November, though credit standards have remained essentially unchanged. The consumer loan segment experienced the sharpest upturn in delinquencies--32 percent of the loan officers reported a rise in delinquency rates, up from 5 percent in October's survey. Almost all of those surveyed are as willing or more willing to lend. Average loan rates are for the most part the same or lower. The spread between the average lending and deposit rates is steady at almost 60 percent of the banks, and lower at almost 40 percent.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District moved up in November, although the improvement appeared to be modest. On balance, manufacturers reported increases in orders during the month, but the gains were not nearly as widespread as they had been earlier this fall. Retailers indicated that cold weather had boosted sales of winter apparel and that the overall pace of sales was turning up, with Christmas shopping running about in line with their modest expectations. Auto dealers, however, said sales of new models were running below expectations and the sales rate has been slipping. Bankers generally reported continued growth in major credit categories, and some renewed strength in consumer lending, primarily credit cards.

The outlook in the Third District business community is generally positive, although expectations are not robust. Despite the recent easing of growth in manufacturing activity, the balance of opinion among plant managers in the region is that growth will accelerate in the first half of next year. Retailers anticipate that sales for the holiday shopping period this year are likely to be ahead of last year's by only a few percent in dollar terms. Bankers expect to add to commercial and industrial loans outstanding, and they expect some further growth in consumer lending, but they are apprehensive that retail sales may ebb, limiting the gain in this credit category.

MANUFACTURING

Manufacturing growth in the Third District eased substantially in November, according to reports from area firms. While one-third of those polled for this report indicated that they were getting increased orders, one-quarter said they had seen a drop in orders in the past few weeks. In general, firms producing machinery and stone, clay, and glass products were experiencing relatively better business conditions while firms in the metal, textile, and apparel industries reported slackening activity. Shipments were about steady for the District's manufacturers overall, and inventories have remained level. Employment measures reflected the slower pace of growth. On balance, industrial plants in the region have been maintaining steady work forces, but they have trimmed hours slightly.

Despite the slower growth in November, the balance of opinion among Third District manufacturers is that shipments and orders will pick up during the next six months. While most firms plan to maintain steady payrolls, slightly more intend to add workers than cut back. Investment spending plans are positive as well. On balance, manufacturers are scheduling higher capital outlays in the next six months.

RETAIL

Third District retailers polled in late November noted that the onset of cold weather toward the end of the month boosted sales of winter apparel. This has helped department store sales, but discount stores once again reported somewhat better performance than other types of outlets. Christmas shopping was noticeably under way by mid-November, according to store executives, but consumers' purchasing plans appeared to be modest. Both merchants' forecasts and local surveys of shoppers suggested that the year-over-year gain for this holiday shopping period is not likely to exceed the increase in 1994, approximately 4 percent in current dollar terms. Sales for the Thanksgiving weekend were consistent with these expectations, according to merchants. They said sales of personal computers and related items and toys were relatively good, although the dollar volume of toy sales may be limited by the absence of widely popular items this year.

Auto dealers reported that sales of new model cars have not met expectations; as a result, inventories have risen above desired levels. The rate of unit sales has slipped from the pace set in the first three quarters of the year, according to dealers contacted at the end of November, and they are paring back their sales estimates for the fourth quarter and for 1996.

FINANCE

Bank lending in the Third District was on the rise in November, with growth in all major credit categories. Commercial and industrial lending continued to move up, although bankers generally noted that the rate of increase had eased from earlier in the fall. Bankers said competition for new business loans was tight and margins were narrow. Consumer lending was getting a boost from increases in credit card loans. Real estate loans booked by major Third District banks remained on an upward trend. Real estate loan volume has been rising at a slow but relatively steady pace since the summer.

Looking ahead, bankers expect some further increases in commercial and industrial lending, although they expect the market for new business loans to remain competitive. However, they anticipate that retail sales will not be strong and that, consequently, gains in consumer lending as well as lending to retailers will be limited in 1996.

FOURTH DISTRICT - CLEVELAND

Overview

Growth in the District's economy has slowed, dampened in part by a manufacturing sector that has been holding mostly level since early summer. Still, the region's economy remains strong and generally growing, with labor shortages continuing in many areas and occupations.

Price pressures remain somewhat light considering the relatively high level of business activity. Presumably, improved productivity levels are contributing to this environment. Furthermore, optimism appears to be relatively high in the District, as evidenced by further expansion in business investment and generally strong consumer spending.

Manufacturing

Overall, orders in the industrial sector are off substantially from the first half of the year, although from a longer-term perspective, order levels are seen as sufficient to support continued high production rates. In some areas, such as heavy truck manufacturing and certain types of steel, production cutbacks are anticipated by the end of the year. In most industries, though, high production levels are seen at least through the first quarter of next year.

Capital goods producers indicate a substantial lessening in orders growth in the past several months, and a few cancellations of earlier orders are noted. Nevertheless, net new orders are still characterized as good, and most industries report plans for capital expansion in 1996. Moreover, export markets are considered quite strong.

While some industries report capacity shortfalls, most indicate that factory overtime has eased. Instead, pressure to restrain the rise in costs through improved productivity and innovation is reported as the driving factor in many business' capital expansion plans.

Wage growth is in the 2% to 3% range, about the rate of inflation. Some worker shortages are reported, such as in engineering. Most manufacturers indicate difficulty finding qualified job applicants, although fundamental changes in the workplace, rather than the current state of the business cycle, are seen as the underlying problem.

Retailing

For the most part, retail sales in October and early November either met or surpassed retailers' expectations. Furthermore, fall sales levels appear to have improved over last year's performance. However, promotions were reported on a range of goods, including personal computers, compact discs, home theater equipment, household furniture, domestic goods, and a wide variety of apparel items.

Preliminary information on the bellwether post-Thanksgiving weekend sales is incomplete, but somewhat encouraging. Several respondents report strong traffic and suggest that sales were well above last year's level. These results are consistent with a recent survey suggesting that nearly three-fourths of area households indicate they will spend "at least as much" this holiday season as they did in 1994. Casual apparel was highlighted as an area of particular strength this season.

Retail inventories are moving lower as store traffic has increased. Still, inventory levels are running somewhat higher than desired. Some retailers note difficulty finding qualified seasonal sales help as a consequence of generally strong District labor markets.

Auto Dealers

Auto sales in October and early November were mixed across the District. However, most dealers seemed optimistic about sales prospects for the remainder of the year and early 1996. Vehicle inventories are generally at desired levels, ranging from 30 to 70 days supply, except in central Kentucky, where dealers report a 90 to 120 days supply. Inventory levels are running higher for imports than for domestic makes, and incentives on import vehicles are prevalent.

Interest rates are having little or no reported effect on sales, although a few dealers complain that high rates are dampening business. Leasing activity continues on an upward trend, accounting for about 50% of sales at District dealerships.

Banking and Finance

Lending has slowed a bit with the overall moderation in business activity this year. Borrowing demands are reported to be generally expanding in most credit categories and are particularly strong for consumers. Consumer credit levels were still rising sharply through mid-November, with strength in both the automotive and revolving credit areas. Mortgage credit originations strengthened in the past month or two, along with the improvement in construction. Moreover, refinancing activity, which had been slight, appears to have picked up a bit recently.

Though generally rising, commercial borrowing has slowed since summer. One source noted a sharp falloff in borrowing to finance inventories. Most banks report a rise in past-due loans, although the present level of loan delinquency is judged to be very low. Competition for deposits remains severe, and deposit levels are reported to be holding about even.

FIFTH DISTRICT-RICHMOND

Overview: Indicators of Fifth District economic expansion changed little since the last Beige Book. Growth decreased in manufacturing and in state revenue collections. Employment agencies saw stronger demand for temporary workers, and port contacts reported that their business was up. Retail, service-production, real estate, and finance contacts reported that activity was mixed in their industries. Tourism and agriculture sources saw little change in their industries' activity.

Retail Trade: Indicators of retail activity growth were mixed in October, according to results from a mail survey of District retailers. Sales revenue growth was unchanged overall. Several respondents reported a slow market for apparels, however; one wrote that corporate downsizings were depressing the demand for business attire. Inventory, employment, and wage growth increased. Big-ticket sales and shopper traffic growth slowed. Survey respondents indicated that retail prices rose more slowly in October than in September. They expected their prices to rise more rapidly during the next six months than they had expected in September.

Service Production: Service-sector growth was mixed in October, according to results from a District mail survey. Revenue growth was unchanged. Employment and wage growth increased. Service producers reported that their prices rose more slowly in October than in September. They expected their prices to rise more slowly during the next six months than they had expected in September.

Manufacturing: Indicators of manufacturing growth decreased in October from their September levels, according to results from a mail survey of Fifth District manufacturers. Survey respondents reported that growth in shipments and new orders decreased; backlog, workweek, and employment growth changed little. Many respondents reported a scarcity of available labor, particularly skilled labor. Manufacturers indicated that finished goods prices rose at about the same rate in October as in September, but that raw materials prices rose more slowly. Respondents expected their prices to rise less during the next six months than they had expected in September.

Tourism: A telephone survey of hotels, motels, and resorts throughout the District indicated that tourist activity in October and early November was unchanged from that of September and a year ago and that winter bookings were up compared to a year ago. Contacts expected better-than-normal business during the next six months, and they expected their prices to rise faster than the general rate of inflation during that period.

Port Activity: Representatives at District ports reported that export levels in October were higher than those in September and a year ago, while import levels were unchanged. Contacts continued to expect exports and imports to increase during the next six months.

Temporary Employment: A telephone survey of Fifth District temporary employment agencies indicated that the demand for temporary workers was higher in October and early November than in September or a year ago. Contacts expected demand during the next six months to be greater than usual. Temporary workers' wages rose faster than the general price level during the past year, and contacts expected wage increases during the next six months. One contact said, "Labor is very scarce....It's getting harder for us to find qualified people."

Finance: Contacts at District financial institutions reported that credit conditions were mixed during the past four weeks. Demand rose slightly for consumer and commercial loans but fell for mortgage loans. Interest rates were down for consumer, commercial, and mortgage loans.

Residential Real Estate: According to a telephone survey of District real estate agents and homebuilders, residential real estate activity declined in October and early November. Housing starts, permits, and sales were down over the period. Many contacts in Maryland and Virginia reported that the government budget crisis slowed the market. Buyer traffic declined slightly, and several contacts blamed low consumer confidence. Construction wages and materials prices were steady, and home prices were unchanged.

Commercial Real Estate: District contacts reported that commercial real estate activity increased in late October and November. Leasing activity and commercial rents increased, and vacancy rates decreased. Prime office space availability continued to tighten in most of the District, and many contacts reported shortages. Most contacts continued to report little new construction.

State Revenues: In a mail survey, state government contacts indicated that tax receipts suggested slower economic growth in October. Compared with September, revenues for October suggested slower growth in North Carolina and Virginia; steady growth in the District of Columbia, Maryland, and South Carolina; and slightly higher growth in West Virginia.

Agriculture: District agricultural activity progressed at a slightly slower-than-normal pace in recent weeks, according to agricultural analysts surveyed by telephone. Contacts said that below-normal temperatures and an early snowfall slowed fall harvesting and winter crop planting in some areas of the District. They indicated that livestock conditions were good and that hay supplies appeared ample. Respondents reported that farm equipment sales were slow in dairy-dependent communities but were above normal in most other areas of the District.

SIXTH DISTRICT - ATLANTA

Overview: According to contacts, the Southeast economy grew at a moderate pace in November. After recording disappointing results in October, retailers reported significant improvement in sales in November. They also indicated that the holiday shopping season got off to a good start over the Thanksgiving weekend, with a majority reporting healthy year-over-year sales increases. Reports on industrial production were mixed, with several manufacturers reporting a substantial decline in new orders. Tourism and business travel were said to be strong in all District states. While construction and sales of single-family homes have slowed seasonally, realtors indicated that these markets have been more active than is generally the case for this time of year. Commercial and multifamily construction continue at a strong pace, with reports of speculative building becoming more numerous. Bankers said that loan demand remains good overall, although commercial lending has been much stronger than consumer lending. Most contacts reported only modest wage and price pressures.

Consumer Spending: After recording disappointing sales results in October, most District retailers said that sales improved significantly in November. A majority of retailers contacted after the Thanksgiving holiday weekend said that sales generally had met or exceeded their expectations. Retailers in Georgia and Tennessee reported the most positive weekend results, while contacts in Florida were somewhat disappointed with their showing. However, retailers throughout the District remain optimistic that holiday sales will be relatively good this year, with healthy year-over-year growth. The best selling items were reported to be electronics and other household durables while apparel products made an unexpectedly strong showing in most of the District.

Manufacturing: Although a majority of manufacturing firms contacted reported increases in production in November, most also saw a slowing in new orders, even in sectors that previously had recorded strong growth. In general, fewer contacts than before indicated that they had increased their factory payrolls since the last Beigebook, and most were less optimistic concerning their future hiring plans. More positively, however, several companies recently have announced plans to expand their operations in the District. In Alabama, several firms indicated that they would be locating new manufacturing plants in the state in order to supply the new Mercedes Benz assembly plant. Contacts in the printing and publishing industry say that their operations in the Nashville area continue to do well, while building suppliers reported a boost in activity related to the hurricane Opal rebuilding effort.

Tourism and Business Travel: Tourism and business travel remain a bright spot in the District economy. According to tourism officials, the number of foreign and domestic visitors to south Florida has rebounded significantly from last year's disappointing levels. Hotel owners in central Florida reported good occupancy rates despite the addition of a large number of new rooms over the last year. Florida tourism officials are optimistic that hurricane damaged beach properties in the Florida Panhandle will be ready to accommodate both the snowbirds who will arrive in January and February and the collegiate spring break crowd in March and April. Tourism associated with the gaming industry in western Louisiana and along the Mississippi Gulf Coast continues to do quite well, although disappointing gambling revenues were said to be a factor in the recent closing of New Orleans' land based casino.

Construction: Several real estate contacts noted that while sales and new construction slowed seasonally, they have been better than generally is expected at this time of the year.

Inventories of new and existing homes for sale were reported to be tight, particularly at the low end of the market. In some areas, this lack of supply has begun to drive home prices higher, although prices generally remain stable in most of the District. Both realtors and builders are optimistic that local real estate market conditions will remain favorable, and most anticipate that sales and construction in the first half of 1996 will exceed year-ago levels.

Commercial and multifamily real estate contacts from across the District characterized their markets as strong. Low vacancy rates and higher rents have spurred new apartment and office development in many local markets. While most office and retail projects continue to be build-to-suit, contacts also noted that a number of speculative projects have gotten underway in recent months. Real estate professionals remain optimistic about the prospects for each of these markets, and most anticipate that the pace of new construction of both commercial and multifamily projects will be strong through much of 1996.

Financial Services: The majority of bankers contacted in November characterized overall loan demand as good. Commercial lending continues to be stronger than consumer lending in most areas. Bankers noted that consumer lending generally has been flat, except for a few pockets of strength. Most contacts reported that auto lending remains weak.

Wages and Prices: In parts of the District that previously had reported increased wage pressures due to tight labor market conditions, contacts reported that pressures have begun to subside. Manufacturers generally reported that commodity price pressures also have eased, although some producers indicated that they expect to see renewed materials price increases in the next few months.

SEVENTH DISTRICT--CHICAGO

Summary. The Seventh District economy continued to expand in October and November, although manufacturing activity exhibited signs of moderating. Retail sales improved through mid-November following lackluster October results, although most retailers contacted expect holiday sales gains to be smaller than last year. Housing and construction activity remained strong in the District and expectations for the near future are still high, despite unseasonably cold weather in early November. Manufacturing activity was mixed, with signs of improvement stronger in October than in November. Labor markets remained tight in the District, with shortages still being reported in some areas. The District's corn and soybean harvest fell short of last year's record highs, while usage rates and prices remained high. District lending activity was mixed, with demand for business loans remaining strong while consumer demand showed signs of softening.

Retail sales. Retail sales in the District improved through most of November, following generally weak October sales. However, one survey suggested that retailers are not expecting sales gains this year to match last year's strong holiday season. Retailers in the region generally plan to increase promotional activities and start these promotions earlier than last year. Competition has been intense in major metropolitan areas of the District, with some downtown area department stores cutting prices to attract customers from discount outlet malls. Sales of electronics generally have outperformed other market segments, while unseasonably cold weather boosted apparel sales in much of the region. A large national retailer reported stronger than expected sales, especially in the region, for the first big holiday shopping weekend following Thanksgiving. Particular strength was noted in appliances and furniture.

Reports from District auto dealers through mid-November have been mixed. A major Midwest dealer of foreign nameplates reported that sales of core products were doing well but sales of niche products--especially sports cars--were weak. A domestic nameplate dealer described sales of new models as "spotty," but indicated that November sales were on target to meet expectations. Several dealers noted that minivan and sport/utility vehicle sales have shown improvement, while auto sales remained weak.

Housing/Construction. Reports from realtors and homebuilders suggest that home sales in the region had been strengthening in recent months, but the sales pace may have slowed slightly in November. Several contacts attribute any recent slowing to unseasonably cold weather in a large portion of the District. One of the largest realtors in the District indicated that sales of existing homes were up considerably from year-earlier levels and continued to strengthen on a seasonally adjusted basis. A survey of homebuilders showed some weakening in new home sales in the region from October to early November. However, these assessments remained substantially above year-earlier levels and stronger than the national average. Expectations for future new home sales remained at the high levels of the third quarter. Contacts with commercial realtors and builders suggest continued strength into November, while noting a normal seasonal slowdown. Mortgage lenders expect that refinancing activity may pick up in the near future in the event of a further decline in mortgage interest rates.

Manufacturing. Manufacturing activity in the District was somewhat mixed in recent weeks, with most of October's gains reportedly linked to auto production. Most of the purchasing managers' surveys around the District posted increases in October, with the Detroit survey pulled up markedly by the auto component of its overall index. Chicago's purchasing managers' survey for November indicated no change in overall activity after October's advance, but orders and production continued to expand. Auto producers indicated a pickup in output at several District assembly plants, related either to new models or added capacity. Two large steel producers reported that orders for the fourth quarter from their auto customers were strong, with one producer indicating that incoming orders moved from 80 percent of their plant capacity in the late summer to exceeding full capacity in October.

In contrast to the auto-related sectors, several reports from other producers suggest some recent slowing in demand. A small steel producer serving a diversity of markets reported that recent orders were flat to slightly down from last quarter, although production was being maintained by selling more steel to their affiliates. An analyst in the medium and heavy-duty truck industry reported a slowing pace in gross orders and fairly high cancellations, but noted that production of some models was being maintained even though inventory was being built. Producers of construction equipment continued to indicate an easing in orders and production. A major appliance producer reported that demand has been mixed, with demand for refrigerators and freezers doing well while demand for dishwashers has weakened. In contrast, producers of agricultural equipment reported that demand was strong.

Labor Markets. Labor markets remained tight in most of the District, with unemployment rates in District states remaining at or near their lowest levels of the last 20 years. Purchasing managers' surveys suggested a slowing of momentum in manufacturing hiring on a seasonally adjusted basis. Help-wanted advertising in the region increased slightly in the third quarter and remained slightly above year-ago levels. Temporary help agencies continued to report difficulty in filling positions, and reports of wage increases for entry-level positions persisted in the District. One analyst in a large market reported that a large fast--food chain has had to increase starting wages twice in the last two months However, this contact noted that there has been no fast-food price increases due to labor shortages.

Agriculture. The fall harvest progressed at a slightly faster than normal pace in District states and is now virtually complete. Latest estimates indicate that both the corn and soybean harvest fell well short of the record highs set a year ago. Because of strong consumption patterns and sharply higher prices, however, the market value of the District's fall harvest may prove to be one of the highest in several years.

Banking. Lending activity around the District was mixed in October and November, with demand for business loans remaining strong and demand for consumer loans softening. Wisconsin and western Michigan, both areas of very low unemployment, continued to experience solid business loan growth, especially for new investment projects. However, some increase in inventory financing was also noted. Several bankers in major metropolitan areas reported a slowdown in consumer lending. The slowdown was attributed in part to an effort to charge higher interest rates and increase profit margins. Another contributing factor noted was a marked increase in delinquency rates in both installment and mortgage loans. One banker expected consumer loan demand to remain relatively subdued for the rest of the year.

EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy continues to grow at a pace similar to our last report. Retail sales grew at a moderate pace in recent months, and most contacts expect this holiday season to be slightly better than last year's. Many contacts continue to report slow but steady growth in their industries and firms. The pace of residential construction slowed slightly in the past month, but multifamily construction is picking up in some areas. Nonresidential construction continues to be a bright spot in many parts of the District. Though overall loan demand remains strong, most contacts note some recent softening. A survey of small firms in the District reveals that more expect business conditions to improve over the next six months than expect them to worsen.

Consumer Spending

Retail sales grew at a moderate pace in September and October in most areas of the District, with increases averaging 2 to 6 percent. Some contacts in Louisville and Memphis, however, noted declines in September and October, especially for women's apparel and other "soft" goods. For the holiday season, most contacts expect a 3 to 5 percent increase in nominal sales over last year, although many hedged these expectations with worries of potential downsizings in their areas. Although most contacts do not expect to offer unusual discounts to move merchandise, one Louisville contact will use "severe discounting" this holiday season, especially for apparel, if merchandise does not move well.

Slightly more than half of District auto dealers contacted report fall sales levels below those of last year. Shortages of popular trucks and minivans at a number of dealers have dampened sales. Rebates and other incentives have been used by about half of the respondents to spur sales. Although most dealers are not expecting stronger sales through year-end, they anticipate a pick-up in sales in early 1996.

Manufacturing and Other Business Activity

Reports from District firms indicate that the pace of economic activity has remained relatively unchanged from the previous reporting period. Although some major firms announced plant closures that will affect the District, many contacts continue to report slow but steady growth in sales and do not expect any severe downturns.

A contact in the heating and cooling industry reports a record year for the industry on the cooling side. Warm weather during the summer and a recent increase in residential construction have helped air conditioning sales; however, some slowing has occurred recently and sales of heating equipment have not yet materialized. A defense subcontractor reports business is picking up because of recent contracts secured by a major St. Louis-based defense contractor. Sales in its home health care division, though, are down about 15 percent this year over last; much of this decline stems from uncertainty about the growth rate of Medicaid and Medicare spending. The nation's largest thrift is opening a new processing center in St. Louis that will employ more than 200 people. A furniture manufacturer reports a recent pick-up in orders. A contact at a wire company notes that his firm's decline in domestic demand has been offset by a comparable increase in foreign demand.

The District's apparel industry is contracting because a national manufacturer is closing two District plants and scaling back production at a third. A total of 1,265 people will lose their jobs. Another apparel firm is also closing three District plants, which will affect 700 people. In both cases, slack demand and fierce foreign competition are the causes. The southern Illinois mining industry will shrink again as three more mines close, eliminating about 700 jobs. Depleted reserves and declining demand for high-sulfur coal are being blamed for the shrinkage. A District shoe producer has announced it will leave the production side of the business and focus solely on marketing and sales. This plant closure, which affects 195 people, is part of the company's cost-cutting and reorganization plan.

Real Estate and Construction

Monthly residential construction permits declined somewhat in most parts of the District. On a year-to-date basis, only four of the District's 12 metropolitan areas report permit levels above last year's. Multifamily construction in Little Rock and St. Louis is beginning to increase. Nonresidential construction continues to be a bright spot for most areas of the District. Among metropolitan areas, Columbia, Mo., and Little Rock are experiencing the District's strongest year-to-date growth in nonresidential construction permits. Tunica County, Miss.—where riverboat casinos have fueled much growth in the last few years—has recently seen new construction fall off sharply.

Banking and Finance

Although loan demand is still reported to be strong in most parts of the District, most respondents note demand has softened somewhat in the past several months. Loan competition is still reported as brisk, and loan pricing is described as very aggressive by a number of respondents. At the same time, deposit growth has slowed somewhat, putting downward pressure on net interest margins. Although most respondents reported some uptick in consumer loan delinquencies, current levels are not considered worrisome.

Outlook

According to a recent survey of 245 small businesses in the Eighth District, nearly two-thirds expect little change in business conditions in the next six months, with those who expect an improvement slightly outnumbering those who expect conditions to deteriorate. This is in stark contrast with three months earlier, when those expecting conditions to worsen outnumbered those who expected an improvement by nearly two to one.

NINTH DISTRICT--MINNEAPOLIS

Moderate growth with few problems continues as the watchword for the Ninth District economy. Construction, which caught a second wind in late summer, is busy right into the winter. Most natural resource industries have strong output and some firms plan new investment in plants or equipment. With the exception of cattle producers, most farmers had a reasonably good year in 1995 and are investing carefully in machinery. The holiday shopping season began with strong Thanksgiving weekend sales, but in general consumer spending on automobiles and general merchandise is cautious. The winter tourism season is off to a good start. On balance, manufacturing orders are slowing somewhat, particularly in firms related to vehicle production, but other firms continue to report strong sales. Tightness continues in most labor markets, but few increases in wages or prices are apparent.

Construction

Residential construction hit its second wind in the fall and continued to dash for the finish line as winter approached. Minnesota's September building permit numbers outpaced one- and two-year earlier numbers in all residential categories. Most builders reportedly have enough starts to keep them busy through the winter. Residential building is similarly strong in cities in North Dakota, South Dakota, western Montana and northwestern Wisconsin. "Fargo is taking on a boom town atmosphere," according to a Ninth District director describing both construction and manufacturing in that city. "Building in western Wisconsin is very strong, up about 28 percent from last year," echoed a colleague.

Commercial building, particularly offices and warehouses in Minneapolis-St. Paul suburbs and in other regional cities, continues active into early winter. Publicly-let heavy construction ends the year as it began, slightly ahead of robust year-earlier figures.

Natural resource industries

Most natural resource industries are in fine fettle as the winter begins. North Dakota's oil boomlet has rig counts nearly double those of a year ago and continued seismic exploration and leasing hold some promise that development may continue. "Total shipments will meet or exceed our projections. It is the best year in a long time," is how an iron ore industry spokesman characterizes business in 1995. A large Minnesota producer of oriented-strand board, a plywood substitute, has applied for permits to double its capacity. Paper mills continue to run at capacity, and many are reportedly investing in new ancillary equipment to remove bottlenecks, although no major plant expansions or paper machine purchases are reported.

Agriculture

As 1995 ends, most farmers, except for beef producers, are in better financial shape than they anticipated in the spring. While wet weather dragged out harvesting in several areas, most farmers have completed fall work and yields were generally pleasing, although somewhat below 1994 levels. Prices for 1996 can be locked in at favorable levels for producers. Farmers are responding by cautiously investing in machinery. While implement dealers do not report a boom, many say sales are stronger than earlier in the year and, in some cases, better than a year ago.

Hog producers continue to face prices that are above late 1994 levels and generally adequate to cover costs. Beef producers, on the other hand, continue in their slow financial hemorrhage. For many producers, the value of calf sales in 1995 was about half that of 1993, the last year of good prices. Dairy farmers are being squeezed by higher feed costs resulting from increased grain prices, but their financial situations are generally reported as stable. Many farmers express concern with continuing uncertainty about the outcome of the 1995 farm bill, particularly its dairy and Conservation Reserve Program provisions.

Manufacturing

"I don't think the economy is as good as some people think," says the CEO of a Minnesota industrial equipment manufacturer, who notes that sales of some of his firm's lines are below plan and 1994 levels. A colleague, who heads a manufacturer of components for trucks and construction equipment agrees, pointing to shrinking sales to truck manufacturers. But other firms, notably farm implement and construction equipment manufacturers in North Dakota and medical device and electronic equipment builders in Minnesota, report continuing strong sales. On balance, manufacturing output apparently is slowing mildly. While industrial electrical usage growth in Minnesota and South Dakota continues somewhat above trend, the margin is narrower than earlier in the year.

Consumer spending

Initial reports on Thanksgiving weekend shopping are positive with area malls reporting strong traffic. Nevertheless, district consumers are repeatedly described as cautious. Many retailers say they are having to increase advertising and promotions to maintain sales that are below plan. Apparel seems to be one category on which consumer spending has dropped. But electronic equipment, including home computers, reportedly continues to sell well.

"It is not that people don't have money, it is just that they are being very careful about how they spend it," is how a dealers' representative describes auto sales in South Dakota. His description is applicable to most areas of the district. Vehicle sales generally continue slightly below 1994 levels, with great variation between different regions. North Dakota, with good crops, strong construction, and oil activity, generally has good sales, particularly of pickup trucks. South Dakota, with a poorer crop and low cattle prices, reportedly has good sales in its larger cities, but slow ones in farm and ranch areas.

Tourism

While the summer season was disappointing at major national parks and attractions in the western part of the district, fall and early winter tourism and recreation activities appear strong. The pheasant hunting season in South Dakota and the deer season in Wisconsin and the Upper Peninsula of Michigan were excellent and hospitality businesses reportedly had robust sales. Snow cover in northern regions came earlier than in 1994, and winter recreation, principally snowmobiling and cross-country skiing is off to a strong start. Some tourist officials in the Upper Peninsula of Michigan, Wisconsin and northern Minnesota expect a record year for such activity.

Employment, wages and prices

"Entry level workers are hard to come by," complains one Minneapolis CEO, and he is echoed by colleagues across the district. Labor markets are tight as a drum in many areas with unemployment rates two percentage points below the national average for most of the district. Wage increases apparently remain modest, with employers sweetening the benefit pot or extending such benefits to previously uncovered workers.

Paper continues to head the list of products with price increases. Agricultural commodities follow and non-ferrous metal prices continue high. But there the list runs out, and reports of price decreases continue for some types of steel and other intermediate goods.

TENTH DISTRICT - KANSAS CITY

Overview. The district economy remained strong during the past month. Manufacturing strengthened further, and homebuilding activity edged up. Retail sales held steady at a level slightly below last year's sales. Agriculture's income prospects brightened modestly, and energy activity stayed sluggish. Manufacturers continued to report shortages of some kinds of skilled labor and rising prices for some materials, but wages and retail prices held steady.

Retail Sales. Most retailers report retail sales were unchanged last month from the month before but remained slightly below year-ago levels. Apparel sales remained weak while sales of home furnishings strengthened. Retailers generally expect modest gains in sales during the holiday season, and most indicate their inventories are in line with expected holiday sales. Automobile dealers report a normal seasonal decline in sales from the month before, but a shortage of 1996 models also contributed to the decline. Dealers expect sales to increase in the months ahead as popular new car and truck models become more readily available.

Manufacturing. Capacity use in district manufacturing remained high during the past month. While some manufacturers report shortages of skilled labor, none report production bottlenecks due to capacity constraints. A recent survey of district manufacturers found that manufacturers increased production last month, while continuing to work off inventories of materials and finished products.

Housing. Most builders report housing starts picked up slightly last month but generally remained below the year-ago level. While construction of single-family homes remained sluggish in much of the district, construction of multi-family buildings strengthened. Sales of existing homes remained flat during the past month but were stronger than last year's sales.

Builders describe the inventory of unsold homes as normal or slightly less than normal and report that home prices have climbed during the past year. Building materials are readily available, and most builders expect little change in prices or availability of material in the next few months, despite a recent decline in lumber prices. Mortgage lenders throughout the district expect mortgage demand to remain strong during the next few months.

Banking. Loans rose faster than deposits at district banks last month, pushing up loan-deposit ratios. Most bankers report gains in commercial and industrial loans, consumer loans, and home improvement loans, while home equity loans, residential and commercial construction loans, and agricultural loans held steady. Security investments were also steady. Most bankers report gains in total deposits, supported by increases in MMDAs and large CDs, while demand deposits, NOW accounts, small time deposits, and IRA and Keough accounts were steady.

None of the respondents banks changed their prime rate last month, and most banks anticipated no change in their prime rate in the near future. A few of the respondents lowered their consumer lending rates slightly, but most expect no change in the near term. Most of the banks report no change in lending standards.

Energy. Low prices for crude oil and natural gas continued to hold down activity in the district's energy industry. Slight increases in energy prices in recent weeks were not enough to encourage much exploration and drilling activity. The number of drilling rigs operating in the district rose slightly during the first three weeks of November but remained well below the year-ago level.

Agriculture. This year's corn, milo, and soybean crops were much smaller than normal in much of the district, due to late planting and early frost. Dry weather this fall also delayed planting and early development of the district's winter wheat crop, diminishing somewhat the prospects for wheat yields at harvest next summer. The problems in crop production, combined with strong export demand, have pushed up crop prices, offsetting much of the financial impact from this year's crop losses while at the same time brightening prospects for next year's income.

The higher crop prices have also pushed up feed costs, however, worsening the profit outlook for the district cattle industry. Fed cattle prices recently rose to profitable levels for the first time in six months. But large supplies of beef and competing meats may limit further gains in cattle prices, while higher feed costs squeeze profit margins. With feedlot profits weak, cattle feeders are paying less for young cattle entering feedlots, triggering losses for district cattle ranchers. As a result, many ranchers are expected to trim the size of their herds, and some may quit the business in the months ahead. On balance, higher crop prices have brightened agriculture's income prospects only modestly, due to lingering problems in the cattle industry.

Wages and prices. Wage and price pressures remain subdued. Labor markets are tight in much of the district, and both minimum-wage and skilled workers are in short supply in some parts of the district. Reports of rising wages, however, are few and widely scattered. Manufacturers continue to report rising prices for some raw materials, such as packaging materials and aluminum. At the retail level, however, prices remain steady.

ELEVENTH DISTRICT--DALLAS

Restrained in part by generally weak retail sales, the Eleventh District economy continued to follow a path of moderate expansion over the last six weeks. Retailers were optimistic going into the holiday season, but their hopes were dashed by lower-than-expected sales during the initial holiday rush. District loan demand increased since the last beige book, boosted by continued improvement in real estate markets. Manufacturing orders were mostly unchanged, with continued strong demand for electronics but flat to softer demand for other products. Demand for business services rose at a strong pace, but there were a few hints of slower growth. Transportation services were unchanged except for a seasonal pickup in demand. Conditions in energy markets were mostly the same as reported in the last beige book, except for a cold snap in the Northeast and Midwest that boosted energy prices in late November.

Although **price pressures** were minimal, there were more reports of **wage pressures** in this beige book survey than in the last one. Manufacturing contacts reported scattered labor shortages for mechanics, electricians and machinists that were pushing up wages. Contacts in the electronics industry said they were heavily recruiting engineers and software developers. In the services industry, respondents noted a tighter labor market for long-haul truckers and top-tier legal and accounting graduates. Several district contacts said there was a short supply of quality unskilled workers that was driving up entry-level wages.

Overall, orders for Eleventh District **manufacturers** were mostly unchanged from the last beige book report. Demand for electronics--including semiconductors, computers and communications equipment--continued to rise strongly, and backlogs were reportedly rising. Contacts said orders for most construction-related products held steady, except for concrete and cement producers who reported higher demand. Orders for paper products and corrugated boxes continued to soften, and respondents said selling prices were dropping from extremely high levels. Apparel contacts said demand continued to weaken because of soft retail conditions in recent months. Contacts in the food industry continued to report slower demand, but remained optimistic in their outlook. Petrochemical inventories were reported to be stabilizing after rising for much of the past quarter. A Chinese embargo on petrochemicals was cited as a source of concern. Refiners said they were between seasons, and noted slack demand for products in October and the first part of November. Demand for oil services and machinery remained unchanged at good levels.

Overall, demand for **business services** continued to rise at a strong pace. There were some hints of slight slowing among legal, accounting and consulting firms that was attributed to weakness along the Texas/Mexico border and a levelling off after a hot first half. Contacts in the business services industry were positive about current conditions and remained optimistic in their outlook for 1996. Hiring rose among temporary, legal and accounting firms, and several respondents reported a tighter labor market for entry-level employees and top-tier graduates.

Contacts in the **transportation services** industry reported a pickup in demand that was strictly seasonal in nature. Several respondents in the cargo industry cited heavy competition and an unstable Mexican economy as continued sources of weakness. Most respondents were cautious in their outlooks and were concerned that holiday demand would not be as heavy as last year.

Retail sales in the Eleventh District remained sluggish, according to most contacts. After a dismal October, retailers were slightly more optimistic going into the holiday season, but were disappointed with the initial holiday surge. Department store and discount chain contacts in the district said holiday sales were below expectations and were weaker than national sales. Sales along the Texas/Mexico border remained depressed. Auto sales rose in November, and contacts said much of the strong demand was a result of good financing terms.

Eleventh District **financial institutions** reported increased loan demand, with strong demand for business and commercial real estate loans. Residential real estate loan demand was about even with levels reported in the last beige book, but contacts said it was above last year's levels. Respondents were more optimistic in their outlooks for 1996, mostly due to expected increases in business, consumer and commercial and residential real estate loans.

Real estate conditions continued to improve in the Eleventh District. Contacts cited strong demand for industrial and warehouse space, especially along the Texas/Mexico border. Demand for office space also continued to edge up, and several respondents noted a lack of available space in high-tech suburban areas. Despite high vacancies in downtown Dallas and Houston, contacts were optimistic that office rents would continue to rise. In addition, contacts said that sales of new and existing homes were stronger.

Conditions in **energy** markets were about the same as reported in the last beige book report, except for a recent weather-related run-up in prices for natural gas and oil products. Natural gas spot prices rose from $1.70 per thousand cubic feet in mid-October to $2.10 per thousand cubic feet by late November. Heating oil inventories were reported to be 10 percent below last year's levels, and wholesale prices rose by five cents per gallon as colder weather hit the Midwest and East Coast. Cold weather also pushed crude oil prices slightly above $18 per barrel. For the previous five months crude prices had been hovering mostly between $17 and $18 per barrel.

Dry weather has impeded the growth of small grain crops, according to **agricultural** respondents. Livestock conditions were reported as good, although prices for beef cattle continued to decrease. Overall, the Texas All Farm Products Price Index fell 1 percent in October, as rising crop prices were outweighed by declining livestock prices.

TWELFTH DISTRICT -- SAN FRANCISCO

Summary

Reports in the 12th District generally point to continued solid growth and only limited signs of weakness entering late fall. Rapid expansion continues in several District states, and some California respondents note increased business activity. Bank loan activity is high in the District, except in parts of Southern California. Some areas recently have posted weak retail sales--particularly for autos--and expectations for holiday season sales are mixed in the District. Business leaders report only weak to moderate upward wage and price pressure overall in the District.

Business Sentiment

Most respondents in the District predict continued moderate national economic expansion in the near term, and they remain particularly optimistic about local growth prospects. Currently, two-thirds of the respondents predict no change in the national rates of economic growth, inflation, and unemployment. Among the remaining third, most are predicting improvements in economic growth and unemployment, and lower inflation. Furthermore, almost 60 percent predict more rapid growth in their region than in the nation as a whole, with an even stronger majority predicting stable or improved business investment, net exports, housing starts, and consumer spending in the region.

Retail Trade and Services

Despite recent gains in retail employment in most District states, many respondents note sluggish retail sales in the fall. Auto sales and leasing are reported low in parts of the District, due partially to reductions in incentives from manufacturers' financing programs. Tourism is reported strong in several areas, although continued warm weather is likely to affect ski areas adversely in the near term. Increased demand for business telephone services in California suggests solid growth in business activity in the state. Also, vigorous growth in District foreign trade is sustaining expansion in the wholesale trade and business service sectors.

Expectations regarding holiday season sales are mixed. Respondents in a number of states cite consumer caution and debt as factors that could hold down sales. Expectations are more optimistic for Utah and Nevada, where rapid population and employment growth continues, and Oregon, where the effects of rapid growth may be augmented by a recent state income tax rebate.

Manufacturing

District business leaders note expanding output in high technology and related manufacturing industries, including telecommunications equipment, electronics, and medical equipment. Growth among small manufacturing firms is reported to be particularly strong in Oregon and Nevada. However, there are reports of some slowing in rapid growth among computer component manufacturers in the San Francisco Bay Area. Input prices are rising faster than finished goods prices for industrial machinery and machine tools in the District. Although Washington state manufacturing employment growth is hampered by a strike at Boeing, respondents report continued expansion among smaller manufacturing firms in that state.

Agriculture and Resource-Related Industries

Most areas report high sales of agricultural products. Abundant water supply has buoyed late season yields on some California crops, although yields on other crops--notably cotton--are off. Overall, agricultural exports from California's Central Valley are above their 1994 levels. Agricultural production and sales also are high in other states, particularly Washington and Oregon. In contrast, District cattle ranchers are being hit by a combination of high feed prices and relatively low beef prices. Also, lumber and wood product output in the Northwest has been affected in part by the moderation of national construction activity.

Real Estate and Construction

Real estate and construction conditions vary substantially across the District. Construction activity and demand for residential and commercial space generally are low in the southern and central regions of California, although demand for warehouse and distribution space has picked up. Residential construction and sales continue to improve in the San Francisco Bay Area. The pace of construction activity remains rapid in several states, particularly Oregon and Utah, but some slowing is reported in Washington and Arizona. Home prices reportedly are rising at 5 to 6 percent annual rates in faster-growing states, and construction is being held back somewhat by shortages of skilled labor in those states.

Financial Institutions

Loan demand continues to be strong throughout most states in the District, and respondents note that competition remains aggressive among lenders. In parts of Southern California, loan demand reportedly is light, and some banks are attempting to avert possible deterioration in credit quality; performance among San Francisco Bay Area community banks, however, has improved.