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Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

April 1996

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

APRIL 1996

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SUMMARY*

Economic activity advanced at a moderate pace in March and April, according to reports from the Federal Reserve Banks. All the districts with the exception of New York indicated that economic activity expanded, and several noted that the pace of expansion had quickened recently. Both retail sales and manufacturing activity picked up somewhat. In addition, manufacturers' inventories appeared to be at or near expected levels in several districts. Activity also picked up in nonfinancial services, commercial and consumer lending, and real estate. Mortgage loan activity slowed, as did tourism in several districts, and agriculture suffered from adverse weather.

Price increases remained generally subdued and there were only scattered reports of wage pressures despite continued tight labor markets and somewhat stronger economic growth. Several District banks noted the sharp increases that had occurred in oil and grain prices, but Dallas observed that oil price futures pointed to a near-term decline.

CONSUMER SPENDING

Most districts reported gains in retail sales, but the Boston and New York districts indicated that retail sales were mixed and San Francisco said that sales were stable. Six districts noted that apparel sales were up from the previous year and several attributed the uptick to warmer weather. Retailers in several districts expected a moderate increase in sales over the next few months. The Minneapolis, Kansas City, and Dallas

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districts reported strong auto sales, while the Philadelphia and Chicago districts reported that auto sales were sluggish. Most districts said that retail inventories were near desired levels and were consistent with their contacts' expectations of increased sales.

MANUFACTURING

Manufacturing output strengthened by varying degrees in nine of the twelve districts. The growth rate picked up in Boston, Philadelphia, Cleveland, Richmond, St. Louis, and Minneapolis; Chicago, Kansas City, and San Francisco reported that plants in their districts were operating at moderate to high levels of capacity. However, manufacturing conditions were mixed in New York and weakened somewhat in Atlanta. Dallas said activity was below the level of a year ago but that April manufacturing orders rebounded from March. The Boston, Chicago, Dallas, and Minneapolis districts indicated that manufacturers' inventories were at or near desired levels; Kansas City, Philadelphia, and San Francisco reported that inventories were edging down; and Atlanta said that inventories were increasing moderately.

District banks reported varying pockets of strength and weakness in manufacturing. Cleveland, Chicago, and St. Louis noted increased demand for auto and auto-related products. Boston, Atlanta, and Minneapolis all reported stronger demand for electronic and computer-related equipment. Boston, Atlanta, St. Louis, and Dallas indicated that the market for building materials showed gains.

In contrast, Philadelphia noted that some of their firms which produce homebuilding products and materials saw declining demand. Dallas indicated that the growth in demand for semiconductors and telecommunications equipment had weakened

in recent months. Boston, Philadelphia, Atlanta, and St. Louis reported excess capacity and rising inventories of paper products.

NONFINANCIAL SERVICES

Philadelphia, Richmond, Dallas, and San Francisco reported that the service sector was generally healthy in their districts. Philadelphia reported strong demand for computer-oriented businesses, while San Francisco noted an increase in demand for both computer and telephone communication services.

An earlier Easter and colder-than-normal temperatures hampered beach tourism activity in the Richmond and Atlanta districts. Minneapolis indicated that the long winter was damping tourism activity in February and March. In contrast, Philadelphia reported that tourism was healthy in their district, with increased bookings for conferences and business meetings in the Pocono Mountain region of Pennsylvania. Spring bookings were also higher in the Richmond and Atlanta districts, and Minneapolis said that business owners were optimistic about bookings for the spring and summer.

REAL ESTATE AND CONSTRUCTION

Most Districts reported that residential real estate activity increased; some contacts characterized the activity as "brisk." Housing sales strengthened in the Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco districts. The Richmond and Kansas City districts indicated that housing starts were steady. Kansas City reported that the stock of unsold homes was lean, while Atlanta said that home inventories were "in good shape." Pockets of strength in western and southern New York were overshadowed by sluggish markets in northern New Jersey and upstate New York; one New Jersey contact described the market there as "listless."

Commercial real estate activity also increased in most districts. Dallas, Richmond, and Atlanta reported strong leasing activity with low vacancy rates and high rental rates. The Dallas, St. Louis, Minneapolis, and San Francisco districts noted strong growth in construction activity; Atlanta reported that several speculative projects were under way and more were anticipated. Boston indicated that its commercial real estate market improved somewhat, and New York reported a stable commercial real estate market. San Francisco, however, indicated that the market was soft in the Los Angeles area, and Chicago noted that commercial development remained slow, despite positive absorption rates and firming rents in office and retail space.

The recent uptick in mortgage rates had mixed effects on real estate and construction activity. Chicago and Richmond reported that the rise may have spurred potential homebuyers to take action. The New York district reported that the increased rates had no apparent effects.

FINANCIAL SERVICES

Overall lending activity increased slightly in most districts with moderate gains in commercial and consumer lending activity offsetting weaker residential mortgage and home refinancing activity. The demand for consumer loans was mixed across districts—increasing in Atlanta, Philadelphia, and Dallas but decreasing in Chicago and St. Louis. In the Cleveland, Richmond, and Kansas City Districts, the demand for consumer loans remained steady. New York and Cleveland reported that loan delinquency rates were unchanged. However, Chicago reported that loan delinquency rates rose, although overall credit quality was unchanged. St. Louis reported a slight increase in nonperforming consumer loans.

AGRICULTURE

Agriculture was adversely affected by the weather and high feed costs in March and April, according to district bank reports. Kansas City, Dallas, and San Francisco reported that severe drought conditions had damaged the winter wheat crop; Richmond and St. Louis said that crops there suffered from the lingering effects of winter's severe temperatures. In contrast, Minneapolis indicated that the wheat crop held up well. Several banks cited the small wheat crop and tight carryover stocks as reasons for soaring grain prices. Dallas, Minneapolis, Kansas City, and San Francisco noted that high livestock feed costs combined with low livestock prices were leading to financial stress among ranchers and some feedlot operators. San Francisco and Richmond reported that fruit trees were in worse than normal condition, and St. Louis indicated that an early spring freeze resulted in the loss of 75 percent of the Arkansas peach crop. Kansas City noted that spring planting activity may be delayed by the drought; Minneapolis reported that planting delays have resulted from unseasonably wet weather.

EMPLOYMENT AND WAGES

Most Districts reported tight labor markets but only scattered upward pressure on wages. Tighter markets for manufacturing workers were noted by St. Louis and Kansas City. Chicago said that labor shortages were the main concern of businesses there, although demand for manufacturing workers had softened. Boston indicated that some manufacturers experienced difficulty in filling software and telecommunication positions. The Atlanta and Kansas City districts reported shortages of retail workers. While Dallas reported fewer labor shortages overall, a short supply of skilled workers had caused

delays in the construction of warehouses and office buildings. Cleveland indicated that labor shortages were occurring less frequently than a year ago.

Districts generally reported only modest wage pressures, although St. Louis said several industries experienced increased labor costs and Minneapolis reported wage increases of 4 to 5 percent. Kansas City said that wages rose for skilled workers such as welders and machinists.

PRICES

Most districts reported little upward pressure on prices other than sharply higher prices for grains and energy-related items. Boston, New York, and Atlanta reported that prices in their districts changed little. Price increases in the San Francisco district continued to be moderate overall. Retail prices were steady in Kansas City and increased slightly in Richmond. Materials prices rose in the Kansas City and St. Louis districts but declined slightly in Richmond. Richmond indicated that service-sector and finished goods prices increased slightly. Atlanta reported some pockets of price deflation in lumber and paper, and Dallas reported that oil prices were likely to decline soon. Contacts in the Philadelphia district expected increases in the prices of purchased supplies and materials over the summer.

Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco reported sharp increases in grain prices; however, the Dallas, Kansas City, and Minneapolis districts noted lower livestock prices. St. Louis, Minneapolis, and San Francisco indicated prices for fuels rose, and Dallas and Minneapolis reported price hikes in plastics.

FIRST DISTRICT - BOSTON

The First District economy is expanding at a moderate pace. Retail results in March and early April were mixed, ranging from double-digit sales gains to double-digit declines from a year earlier; some of the laggards saw a pickup in recent weeks. Manufacturers are more upbeat, with most reporting solid first-quarter gains. Inventory levels are not out of line, according to both retail and manufacturing contacts. With few exceptions, selling prices and input prices are said to be stable. Commercial real estate markets in most of New England are improving slowly. Insurance sales are increasing.

Retail

First District retailers report extremely varied results in March and April. Chains selling upscale apparel or specialty non-apparel cite sales increases ranging from 4 to 13 percent over year-earlier levels, and one food chain notes unusual gains of 2½ percent. Other contacts posted 0 to 10 percent losses in March and early April. A few of the latter, however, are encouraged by a very recent pickup in sales activity, attributed to the long-awaited arrival of spring. Retail respondents are moderately optimistic about the economy over the next six months and anticipate sales growth of 0 to 5 percent. They continue to express concern, however, about tough competition, particularly from national chains which are strengthening their position in the region.

Vendor and retail prices remain stable. While gross margins are typically holding, profits vary greatly. Retailers are satisfied with current inventory levels; many contacts have updated their inventory systems in recent years. Less than one-third of respondents anticipate growth in capital spending and employment this year. Wage increases of 2 to 5 percent are expected.

Manufacturing

Almost all First District manufacturing contacts indicate that first quarter 1996 revenues increased from a year earlier, with close to half experiencing double-digit growth over this period. For most, recent sales trends are similar to those in the second half of 1995. Especially large gains relative to a year ago are reported for computer networking and miscellaneous microelectronics products, industrial machinery, and equipment used in residential and commercial construction. (Some contacts alluded to press reports of a slowdown in the semiconductor industry while indicating that their own related business is in good shape for the next 6 to 12 months.) Respondents report that sales of equipment to the pharmaceutical and health care industries are growing faster than in 1995, while sales to the automotive industry have slowed slightly. Demand for apparel textiles generally remains weak, although one contact cites positive trends for materials used in upscale clothing.

Inventories generally are in line with plans. Many respondents indicate long-term efforts to reduce their inventory-to-sales ratio, however, and some firms in the textile and paper products industries report modest degrees of overstocking. One contact expects customers to stock packaging materials in anticipation of a price increase for polyethylene.

Selling prices and materials costs are reported to be largely stable. Some respondents have raised prices to reflect higher-cost steel and other metals or to improve margins. Paper and wool prices reportedly have softened after rising considerably last year.

About three-quarters of the respondents have increased employment during the past year, but future trends are expected to be more mixed. Some

manufacturers report difficulties filling software and telecommunications positions, but none indicates generalized wage pressures. Investment plans vary widely; over one-third of those contacted mention efforts to rein in capital spending.

Commercial Real Estate

Commercial real estate in New England has improved somewhat lately. Most markets are beginning to recover from the long winter. Contacts report gradual absorption of the existing stock, leading to slowly decreasing vacancy rates. No major new construction is reported. In addition, confidence is said to be low, preventing developers from making new investments and banks from lending them money.

Rental rates have been going up slightly or have levelled off in most markets. However, contacts view these price movements as too small to make up for the large price decrease that took place over the last several years. While downtown Boston and the greater Boston area have been doing very well, Maine, Rhode Island, and Connecticut have seen only very minor increases in activity. In all the states, the retail market seems to be the slowest to recover, while the industrial sector and apartment building sales are stronger.

Nonbank Financial Services

Respondents at insurance companies reported an increase in sales in the first quarter of 1996 compared to the first quarter of 1995. Employment, however, continued its downward trend, mostly because of continuing consolidations and mergers in the region. The consolidation trend reflects the spread of managed care, as insurance companies providing fee-for-service health insurance merge with managed care providers.

SECOND DISTRICT--NEW YORK

Second District economic conditions have weakened somewhat over the past two months, despite a modest pickup in job growth. Reports from retailers were very mixed in March and April, with year-over-year changes ranging from outright declines to double-digit gains; but on balance, sales were weaker than in February and a bit below plan. Job growth has accelerated somewhat, but a corresponding increase in labor force participation has kept unemployment rates from declining. Finally, banks' delinquency rates, which had been rising, leveled off in the past two months, while demand for commercial and industrial loans picked up.

Consumer Spending

March and April retail sales in the region varied substantially among the retailers surveyed but were generally weaker than in February. An early Easter distorted monthly sales figures, boosting March at the expense of April; for the two months together, year-over-year changes in same-store sales ranged from a decline of 1 percent to a double-digit increase—overall gains averaged slightly more than 3 percent, down from 6 percent in February. A number of contacts reported that sales were below plan, but all reported that inventories were close to desired levels by late April.

Unseasonably cold weather reportedly had a moderately negative impact on sales, particularly in March. One contact attributed February's strength—and March-April weakness—to earlier-than-usual tax refunds. Apparel, especially women's, generally outperformed other merchandise categories and demand was considerably stronger for upscale apparel than for more moderate lines. Most retailers are holding prices steady, though reports suggest somewhat less discounting than a year ago. Costs for merchandise and labor are generally flat.

Construction & Real Estate

Commercial real estate markets in the New York metro area were stable in March. A dip in leasing activity pushed Midtown Manhattan's office vacancy rate back up to 14.2 percent (matching December's level), from 13.9 percent in February. But downtown's rate edged down for the fifth consecutive month, to 24.6 percent in March, versus 24.7 percent in February and 25.7 percent last

October. In the first quarter, northern New Jersey's office vacancy rate fell from 19.2 to 18.7 percent (a six-year low); rates edged up in Westchester and Fairfield counties, but are lower than a year ago.

Reports on the residential real estate market were mixed in April. Contacts in downstate New York continue to experience a better spring selling season than last year—both traffic and sales are up. However, builders report no recovery in the Albany area (which has been depressed by state government downsizing), and only a moderate pickup in the western tier of the state in recent weeks. New home sales across upstate New York remain weaker than a year ago; while the inventory of new homes is very low, a large supply of existing homes for sale is depressing the overall market.

New Jersey builders say that sales and traffic have slowed a bit in recent weeks, following a first-quarter pickup, and that sales are lower than a year ago—one contact described the market as “listless”, noting that while consumer pessimism has diminished, so has the sense of urgency to buy. Apparently, the recent rise in mortgage rates has, thus far, not been much of a factor.

Manufacturing

Regional surveys of purchasing managers were mixed in April. Business conditions in metropolitan New York City's manufacturing sector improved in April but were still on the weak side (outside the manufacturing sector, local conditions continued to be mildly positive). Conversely, purchasing managers in the Buffalo area reported that business conditions in the manufacturing sector, which had been quite favorable throughout the first quarter, deteriorated sharply in April. Apparently, this incipient weakness was not directly related to the GM strike, which is estimated to have idled 6,000 Buffalo-area workers at its peak in mid-March. Purchasing managers in New York City report continued declines in prices paid, but those in Buffalo cite modest increases.

Other Business Activity

The district's labor market strengthened somewhat in the first quarter. Payroll employment growth was above trend in New York and New Jersey, both for the month of March and year-to-date. New Jersey's unemployment rate has remained fixed at 6.4 percent since January, while New York State's rose from 6.0 to 6.5 percent in March, after edging down by 0.2 points in February. (New York's

rise was due to a sharp increase in labor force participation, which was accompanied by a more moderate rise in employment). New York City's ongoing fiscal difficulties have prompted the mayor to accelerate job cuts for the upcoming fiscal year, while a number of large corporations—General Public Utilities, Perkin-Elmer, Kraft, and Prodigy —announced job cuts totaling about 1,000 in the region. On a brighter note, tourism continues to boom, with first-quarter hotel occupancy rates in New York City climbing to a 16-year high.

Financial Developments

At small and medium-sized banks surveyed in the district, overall demand for new loans in April was higher at about 40 percent of the surveyed banks and steady at another 40 percent compared to two months earlier. According to senior loan officers at the surveyed banks, the largest increase was seen in the commercial and industrial loan segment, with demand higher at nearly 35 percent of the banks and steady at about 45 percent. Growth in demand for residential mortgage loans weakened slightly; demand is lower at about 30 percent of the banks and steady at another 30 percent. Refinancing activity for all types of loans dropped sharply, reversing the upward trend that began last November.

Average loan rates, which had been trending down, leveled off in April—only 35 percent of respondents reported declining loan rates, down from 76 percent in February; residential mortgage rates have increased, on balance. With average loan rates leveling off, more banks than previously reported a widening of spreads between average loan and deposit rates. Delinquency rates have decreased or remained the same at more than 80 percent of the banks. Banks were more or just as willing to lend in April as in February, and credit standards have generally remained the same.

THIRD DISTRICT - PHILADELPHIA

Reports from various sectors of the Third District economy indicated that business activity was moving up slightly in April. Around one-third of the manufacturers surveyed reported some gains during the month, although producers of building materials noted recent declines in sales. Retailers said sales were picking up modestly with the beginning of the spring season. Auto dealers described the sales rate in April as good, although a bit below their expectations. Bankers noted some increased commercial loan demand and a modest increase in consumer lending. Tourism in the District has been healthy, and contacts in resort areas said advance bookings for summer vacations have been strong. Among service industries, computer consultants and service firms reported increased hiring and contracting for computer network installations.

MANUFACTURING

Third District manufacturers reported some improvement during April. Although about half of those contacted said their business was steady, a little over one-third indicated that orders and shipments of their products were on the rise. The gains were spread among almost all the major manufacturing sectors in the region; however, some firms that produce products and materials for the homebuilding industry said demand for these goods was slipping. In addition, some firms that export, as well as those that compete with imports, noted that the dollar's recent strength has adversely affected their competitive position.

In general, area manufacturers reported they were working down inventories and planned

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to continue to do so, but there were some reports that inventories in the paper industry were rising above desired levels. Local manufacturers noted some increases in input costs in April, and they expect some additional increases in the prices of purchased supplies and materials over the summer. Manufacturing employment remained nearly steady in April: nearly two-thirds of the local firms surveyed noted no changes in employment levels or working hours, and the number of firms adding workers was matched by the number making reductions in their work forces.

RETAIL

Third District merchants generally reported modest increases in sales for the March-April period compared with the first two months of the year. An early Easter boosted March sales but held down sales in the first half of April, according to store officials. But they also noted that warm weather in recent weeks has spurred sales of summer apparel and seasonal merchandise. In particular, new styles and colors for women's clothes have encouraged more buying of apparel this spring than last, according to some retailers, and helped to lift performance at department stores and women's clothing stores. Also, recent above-normal temperatures have encouraged purchases of lawn and garden-care merchandise. Most retailers in the District described their inventories as appropriate for the current sales rate and consistent with their expectations for a modest year-over-year gain in sales for the spring season.

Auto dealers generally reported that sales in April were running at a healthy rate, although a bit below their earlier expectations. Some General Motors dealers said their sales were limited by the strike at a parts plant and attendant production cutbacks in March. Most dealers for all makes indicated that their inventories were at satisfactory levels.

FINANCE

Bank lending in the Third District was moving up slightly in April, according to loan officers at major banks. They noted some recent small gains in commercial lending, primarily to manufacturers. Bankers continued to characterize the competition for business lending as very strong. Some banks also have seen increased demand for consumer installment credit and home equity loans. Credit card lending has also picked up a bit, but some bankers indicated they were implementing more conservative credit standards, which could restrain the growth of this type of lending.

TOURISM

The region's tourism industry has been healthy, according to tourism officials and hotel executives. Hotel occupancy rates continued to be strong in Philadelphia. Real estate agents in New Jersey and Delaware shore resorts reported that more rental contracts for the summer have been signed through April of this year than last and rental rates have been edging up. Tourist officials in the Pocono Mountain region of Pennsylvania indicated that hotels in the area have seen increases in bookings for conferences and business meetings.

SERVICES

Data processing firms and consultants in the Third District reported strong demand for systems design and installation as well as hardware upgrading. Computer consultants and contractors said a continuing trend toward personal computer networks was generating demand for their services and for the hiring of permanent staff with expertise in personal computer systems design and installation. Demand for programmers was steady, and the need for mainframe computer operators continued to decline.

FOURTH DISTRICT - CLEVELAND

General Business Conditions

Business activity is expanding in the District, after having shown only mixed and generally small gains since the first of the year. Even in western Pennsylvania, an area that has not fared especially well in the past year, production and employment are both up. That region still lags Ohio, however, where growth has generally been stronger.

Unemployment remains low in most parts of the District and is particularly low in manufacturing-intensive northwestern Ohio. Reports of labor shortages are still heard in some areas, although perhaps less frequently than at this time last year. Still, wage increases are running only in the 2 percent to 3 percent range.

Weather conditions this spring have been cool, but mild, and early crop production estimates are favorable. The combined effect of good harvests and substantially lower inventories compared to last year suggests the potential for a profitable agricultural sector in 1996.

Manufacturing

Industrial activity is still gaining ground after a relatively weak year-end performance. Many manufacturers indicated that orders have picked up since the first quarter. Capital goods producers continue to lead most other manufacturers in growth and production rates. Auto and auto-related companies are reporting higher production levels following the strike-induced shutdowns last quarter, although a few lingering aftereffects of the strike were noted. Firms with significant export markets see business from abroad

growing moderately from earlier in the year. Only a few industrial producers indicated higher-than-desired inventory levels, also an improvement from the District report of a few months ago.

Cost pressures remain remarkably light given the continued high production levels seen here. Area purchasing managers report that prices have risen on only a limited assortment of commodities, including some metals and most energy goods. Only a few commodities are noted to be in short supply.

General Retailing and Auto Sales

District retail activity strengthened in March and April, but cool temperatures were a negative factor, especially in building supplies and lawn and garden equipment. Apparel sales were stronger in April, with women's apparel, sportswear, and some categories of men's apparel much improved from earlier in the year. Major appliances and consumer electronics have also been selling well (although sales of computing equipment are off substantially.) Still, the April retail performance was generally good, and one contact suggested the potential for the start of another retail growth cycle. Indeed, one national retailer reports plans to add six or more stores in the District by year's end. Inventory levels are "on plan" at most of the retail establishments we contacted.

Auto sales were mixed across the District during March and April. Several dealers attribute much of the poor sales performance to colder-than-usual temperatures and most were optimistic that sales would improve this spring. Dealers are continuing to use special financing plans and factory incentives. Current interest rates seem to be

having little or no effect on sales, but most dealers are quick to note the potential for a drop-off should interest rates rise appreciably.

The General Motors strike appears to have had only a small effect on sales, although inventory stocks were noticeably depleted. In most cases, the inventory decline helped trim excess supplies (although one dealer saw inventories plunge to a 4-day supply and reportedly lost some sales as a result.) The majority of dealers describe their stocks as “desired” or “slightly lower than desired,” with the typical inventory ranging between a 50- and 75-day supply.

Banking

The majority of banks indicated that loan demand has picked up a bit from earlier in the year. However, most of the recent growth in credit extensions has centered in the commercial credit categories, despite a rather pronounced drop-off in inventory floor plans. Presumably, credit extensions for business expansion are rising again. Some institutions also report a modest increase in new mortgage credit. Consumer borrowing remains basically flat, although a number of larger institutions report greater securitization of a variety of consumer loans.

Competition for credit is keen and spreads between deposit and lending rates are said to be narrow. However, profit reports from District banks last quarter were good. Moreover, while a continuing deterioration in credit quality is noted, there are no reports of any significant rise in either commercial or consumer debt delinquencies.

FIFTH DISTRICT-RICHMOND

Overview: Economic activity in the Fifth District grew moderately in late March and April. Retailers, manufacturers, port representatives, temporary employment agencies, and service producers reported that growth was higher in their sectors. Activity in the tourism and financial sectors was mixed, while the growth of state revenues varied across states. Residential real estate activity grew more slowly but commercial real estate activity strengthened. Conditions in agriculture were normal.

Retail Trade: Most indicators of retail activity suggested increased growth in April, according to preliminary results from a mail survey of District retailers. Sales revenue and shopper traffic growth increased. Employment growth increased slightly; wage growth changed little; and the growth of inventories and big-ticket sales slowed. Survey respondents indicated that their prices rose less in April than in March. Respondents' six-month outlook was for their prices to rise more slowly than was their forecast in March.

Service Production: The pace of expansion in the service-sector rose in April, according to preliminary results from a District mail survey. Revenue and employment growth was higher and wage growth changed little. Service producers reported that their prices rose at the same rate in April as in March. Respondent's six-month outlook was for their prices to rise more slowly than was their forecast in March.

Manufacturing: Most indicators of manufacturing activity growth increased in April, according to preliminary results from a monthly mail survey of District manufacturers. Except in Maryland, survey respondents reported a faster pace of expansion in shipments, new orders, and order backlogs. Maryland manufacturers reported that growth weakened, and one contact there attributed the weakness to defense cutbacks. Manufacturing

employment and the workweek changed little and respondents continued to report a scarcity of skilled labor. Manufacturers indicated that finished goods prices increased slightly in April from the month before, but that raw materials prices declined. Respondents' six-month outlook was for their prices and the prices of raw materials to rise faster than was their forecast in March.

Tourism: A telephone survey of hotels, motels, and resorts throughout the District indicated that April tourist activity was above March levels but below those of a year ago. Baltimore contacts reported that baseball boosted tourism above last year's strike-affected level. Compared to a year ago, District beach activity was hampered by an earlier Easter and colder-than-normal temperatures, but spring bookings were up. Contacts expected better-than-normal business and slight increases in prices during the next six months.

Port Activity: Representatives at District ports indicated that both export and import levels in March were higher than in February and a year ago. Contacts continued to expect exports and imports to increase during the next six months, with exports expected to rise faster than imports.

Temporary Employment: A telephone survey of District temporary employment agencies indicated that the demand for temporary workers was higher than in early March and a year ago. Wages paid to temporary workers increased faster than the general price level during the past year, but were unchanged during the last six weeks. Contacts indicated that companies were hiring more temporary workers into permanent positions than a year ago. Looking forward, contacts expected the demand for temporary workers to strengthen during the next six months.

Finance: Contacts at District financial institutions reported that lending activity was mixed during late March and April. Lenders indicated that the demand for commercial and

consumer loans was unchanged from early March and that the demand for mortgage loan refinancings weakened. Compared to the previous six weeks, interest rates were unchanged on commercial and consumer loans but were higher on mortgage loans.

Residential Real Estate: According to a telephone survey of District real estate agents and homebuilders, residential real estate activity increased more slowly in late March and April. Housing starts, sales, and customer traffic grew at a somewhat slower pace. Homebuilders claimed that the recent increase in mortgage interest rates had negatively impacted their markets. Real estate agents said that the recent increase had forced some potential buyers out of the market but had led others to close more quickly on open transactions. Construction wages and building materials prices increased slightly.

Commercial Real Estate: District contacts reported that commercial real estate activity picked up in late March and April. Leasing activity increased, landlord concessions all but disappeared, and commercial rents continued to rise. Vacancy rates fell, except in West Virginia where they were unchanged. The availability of prime office space continued to tighten in most of the District and nearly half the respondents reported shortages; one Maryland contact characterized the shortage in his area as "desperate." Contacts continued to report new construction, especially in the Carolinas and the District of Columbia.

State Revenues: State tax collections were mixed in March compared to February. Real revenue growth was stronger in North Carolina, Virginia, and West Virginia; flat in South Carolina; and somewhat slower in Maryland and the District of Columbia.

Agriculture: Activity in agriculture progressed at a normal pace according to district agricultural analysts. Warmer weather in late April allowed farmers to catch up on planting activity delayed by a colder-than-usual March. Winter's bite still affected crops; analysts reported that the condition of small grains and fruit trees were worse than normal.

SIXTH DISTRICT - ATLANTA

Overview: According to contacts around the District, the Southeast economy continued to expand in early spring, although reports showed some softness as well as strength. Retail contacts reported that same store sales in March and early April exceeded year-ago levels, despite increased competition and bad weather. Manufacturing activity fell in March for the second month in a row. Recent reports from the tourism and convention sectors were largely positive, and the outlook remains upbeat. According to real estate contacts, the single-family housing market continues to maintain its strong performance from earlier in the year, and expectations among builders and Realtors are positive. Commercial and multifamily markets continued to improve. Bankers characterized overall loan demand as steady. There were scattered reports of wage pressures in parts of the District, but also reports of price deflation in lumber and paper.

Consumer Spending: Most District retailers report that sales in March and early April exceeded year-ago levels. However, some retailers did note that increasing competition and cold weather in early March did cut into sales. Most contacts reported that inventories were currently on target, but several did say that their inventories were uncomfortably high. Home-related products continue to be a strong seller across the District but apparel sales were mixed. The outlook remains positive as most contacts anticipate second quarter sales will exceed last year's level, even if only moderately.

Manufacturing: The majority of industry contacts reported that factory activity edged down or was steady in March and early April. A plurality of manufacturers anticipate a modest increase in production over the next few months, and they expect the volume of new domestic orders to slow, while the volume of new orders for export is expected to increase. More contacts now intend to trim factory payrolls and substitute capital equipment than was the case early in the

year. Finished goods and materials inventories at the plant level increased moderately over the past month. A recent pickup in new orders and production for some textile and carpet manufacturers is encouraging. One contact thinks that increasing building activity will stimulate carpet production over the next few quarters. However, reports of downsizings and plant closings of weaker, less competitive, apparel firms continue in parts of Mississippi and Alabama, and stubborn inventory excesses continue to plague apparel manufacturers in other parts of the District. Some contacts express concern over building paper inventories, and several lumber mills have cut back on total hours worked. Slack new orders are forcing a heavy-duty truck supplier to cut its workforce, and a supplier of components to the auto industry notes decreasing orders and shipments. More positively, strong business activity is reported for producers of electrical and electronic machinery. A large consumer durable manufacturer is also expanding in the western part of the District.

Tourism and Business Travel: The outlook is positive for the tourism and convention sectors, according to industry contacts. South Florida destination resorts are fully booked and summer advance bookings are ahead of last year. The average length of stay has reportedly been several days longer at south Florida resorts than last year at all price levels. The number of European visitors to central Florida is up at double-digit rates from a year ago, and attendance at central Florida theme parks is expected by local tourism officials to continue to post strong gains. However, spring break attendance at some Florida destinations was not as strong as a year ago, and the number of Venezuelan visitors to south Florida is likely to decline as a result of the devaluation of the bolivar. In Nashville, hotel managers feel that the third and fourth quarters will be strong with rising occupancy rates. Casino operators along Mississippi's Gulf Coast report continued good traffic with gambling revenues rising moderately over last year.

Construction: Most real estate contacts reported that single-family home sales were ahead of year-ago levels in March and anticipate April sales will be strong as well. Throughout most of the District, inventories are in good shape. Overall, inventories are on the rise in Atlanta and Nashville, but demand remains extremely strong in these markets and real estate contacts do not anticipate market saturation. In the Birmingham market, new home inventory is said to be less than normal, while demand is strong. As a result, some District contacts report a rise in home prices. However, a contact in south Florida reports that home inventories are too high and prices are stagnant, although first time buyer homes are moving fast.

Contacts from across the District report that commercial and multifamily real estate markets continue to improve. Low vacancy rates and higher rents are propelling new apartment and office development. While most commercial projects are still build-to-suit, several speculative developments are underway and more are anticipated this year. Most real estate professionals continue to anticipate that new commercial and multifamily construction will grow this year.

Financial Services: Contacts in the banking industry described overall loan demand as steady. Bankers report that commercial lending continues to outpace consumer lending. Some contacts reported that commercial lending was up over earlier in the year but down from last year's levels, and that consumer loans were slightly stronger than early in the year. Bankers also found automobile financing to be performing extremely well, and mortgage lending up slightly.

Wages and Prices: Contacts report a few instances of wage pressures in scattered parts of the region. Some merchants and other service industry spokesmen report that the ability to fill entry level positions has become a challenge. Atlanta's boom in new retail and service businesses has forced many employers to pay well over minimum wage. Manufacturing contacts report

fewer increases in prices for both finished goods and materials than was the case in late winter. Some factory contacts note price deflation, especially in paper products. One contact expects timber product prices to continue to decline for the next few months. A large chemical producer notes price erosion because of foreign competition. An oversupply of heavy equipment manufacturing capacity is keeping prices down for some producers, according to one industry spokesman.

SEVENTH DISTRICT--CHICAGO

Summary. Economic activity in the Seventh District remained at relatively high levels in recent weeks, although a few pockets of slowing or declining activity existed. Retail sales growth increased slightly from earlier this year, but results varied by state. The District's housing activity picked up in March and April, with several contacts seeing buyers motivated by concern of possible further mortgage interest rate increases. With some exceptions, manufacturers were reporting increases in overall activity. Bank lending activity remained at high levels, and some banks even reported strong loan growth. Labor market shortages continued to be the main concern of businesses, despite softening demand for workers from the manufacturing sector. Grain prices increased sharply in recent weeks due to a combination of strong demand, both here and abroad, and weather-related problems which threaten to exacerbate already tight supplies.

Retail sales. Retail sales improved slightly in March, with further sales increases reported through much of April. Several retailers stated that Midwest sales were above year-ago levels and slightly ahead of gains in other regions. However, unseasonably cold weather may have hindered sales growth of spring merchandise, particularly in Michigan. Several retailers were concerned that sales lost to poor weather may not be made up in coming months, although one retailer reported a seasonal buildup of inventory in anticipation of increasing sales in May and June. While a survey of small independent Michigan retailers showed that sales continued to be slow in March, most respondents were optimistic that pent-up demand will boost second quarter sales, especially when warm weather settles in. Several auto dealerships reported that sales over the last several weeks were somewhat sluggish for this time of year, mostly due to a reduction in fleet sales. However, dealers are expecting marked improvement in the months ahead and dealer confidence remains high. One regional distributor of foreign cars reported that their new- and used-car sales were doing very well and dealers were "screaming" for more stock.

Housing/Construction. Housing activity picked up more than seasonally in March and contacts reported that this pace continued through April. However, several sources surmised that the sharp increase in fixed-rate mortgage loan rates may have prompted indecisive buyers to take action. Existing home sales in the Midwest increased sharply in March to their highest level since April 1994. Contacts across the District reported that sales activity remained brisk in April, with one realtor adding that "if a home is sharp, it's gone in a day." New home sales in the Midwest posted modest gains in March and a national

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survey of builders suggested that the sales pace of new homes in April continued to exceed the nation's. Midwest builders were the most optimistic of any region in the country about prospective sales for the next six months. Commercial development remains slow, despite positive absorption rates and firming rents in both office and retail space. An industry analyst noted, however, that rental rates are not yet high enough to prompt much new commercial building activity in most downtown areas.

Manufacturing Activity. Manufacturing activity continued to expand at a moderate pace in March and early April, despite declines in some key industries. Recent purchasing managers' surveys from around the District were generally indicating flat-to-moderately increasing activity, including the survey from one major metropolitan area that had been signaling a contraction in overall activity in its two previous reports. Most durable-goods producers were upbeat, reporting recent orders or sales to be slightly stronger than they were expecting at the beginning of the year. Several pointed to exports as a key source of strength. A supplier of specialized equipment to the mining and paper industries reported strong demand for new equipment. A machine tool producer reported a modest slowdown in demand for small- and medium-sized metal-cutting machines, but total demand was boosted by orders from the auto industry. A steel analyst stated that integrated mills supplying the auto and appliance industries had full order books through the second quarter and demand for structural steel continued to rise. Mills had been running behind on filling orders from the auto industry and were able to use the recent strike-related disruptions to catch up. Most producers reported that inventories were lean or, at worst, slightly above plan and would only increase, if necessary, to keep in line with any sales gains. However, some seasonal inventory building was taking place to prepare for summer plant closings. The pricing environment continues to be described as "tough." However, a March survey of businesses around the nation indicated that firms in the Midwest were more likely to be experiencing increases in prices paid and prices charged than in other regions.

A few industries reported declining activity. A producer of heavy construction equipment experienced weaker-than-expected orders in recent months and reported that production had been cut to levels below the end of last year. An analyst for the heavy-duty truck industry reported rising dealer inventories and cuts in build plans, although the industry is postponing major adjustments until the summer shutdown period due to better-than-expected gross new orders. Auto assemblies in the District declined sharply in March due to a strike against a major automaker, but few businesses reported being impacted by the strike unless they were a direct supplier to the plants affected. Auto production bounced back in April as strike-related plants reopened and efforts were made to recapture some of the lost production.

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Banking Conditions. Most bankers reported stronger-than-expected loan demand, with growth rates generally described as moderating from earlier months but still strong. Commercial and industrial lending was strongest among mid- and small-sized businesses, with one bank economist attributing some of the strength to recent merger and acquisition activity among local businesses. A large regional bank detected less pessimism among corporate borrowers than was prevalent at the beginning of the year, and one bank noted a decline in C&I loans for inventory financing. However, several banks noted some slowing in consumer lending. Every bank contacted reported that mortgage applications were down sharply in recent weeks, mostly for refinancing. Most banks viewed credit quality (excluding retailer loans) as remaining unchanged at very good levels, despite some increase in delinquency rates.

Labor markets. Labor markets remained much tighter in the District than in the nation as a whole; with unemployment rates well below the national average. Temporary help agencies reported that a shortage of qualified workers in the technology and information industries persists throughout the District and demand for skilled clerical workers is very strong. The employment component of purchasing managers surveys in March and April were mixed, supporting other reports of a stagnant employment situation in the manufacturing sectors. However, several sources reported that there are signs, including increases in average weekly hours, that manufacturers will again be increasing employment soon. Most sources also indicate that there is very little upward pressure on wages.

Agriculture. Grain prices have soared recently, setting new highs in both the cash and futures markets. The latest surge reflects strong domestic and foreign demand for corn, as well as a realization that the winter wheat crop suffered extensive damage from weather related problems during the fall and winter months. Higher grain prices are a major concern for livestock producers, although the District's pork producers have fared reasonably well so far. In addition, some observers question whether the depleted grain stocks might result in pipeline disruptions to feed supplies prior to the new harvest crop. An extended period of high grain prices may trigger cuts in livestock production which would, in time, tighten supplies of meat, milk, and eggs. However, the high prices will likely add to the large increase already expected in spring crop plantings now underway in the Midwest. Increased grain prices are, in part, responsible for rising farmland values. Our latest survey showed that District farmland values increased by over 4 percent in the first quarter and are now 10 percent higher than a year ago.

EIGHTH DISTRICT - ST. LOUIS

Summary

District economic activity has increased since the last report. Most contacts report stronger growth recently relative to the first two months of the year. Noticeable cost pressures are reported for several industries because of tight labor markets and substantial increases in fuel and feed grain prices. Residential and nonresidential construction have picked up after a slow January. Home sales have also improved in most parts of the District. Recent District loan growth is on par with that of last year, and many respondents report strong loan demand and aggressive competition for loans. A large percentage of the District's weather-damaged winter wheat crop will be plowed under and replanted with other crops.

Manufacturing and Other Business Activity

Reports from District contacts are more upbeat than they have been in the past few months. Expansions and new plant openings are leading to increased employment, and, once again, reports of tight labor markets are prevalent. Some firms have cut back production, however, usually because of company consolidation or cost cutting.

A snack food maker is expanding into northeast Arkansas where it will initially hire 200 to 400 workers by early next year. A large Missouri manufacturer of chemicals and related products reports a noticeable uptick in demand for materials used in the housing and auto sectors; an even larger increase is noted for agricultural-related products. A bank card processing center is expanding to southwest Missouri, bringing 750 jobs by year's end. A new Tunica County, Miss., casino has already hired 600 workers and is looking for 3,000 more. A concern, though, is that there are not enough workers in the area to satisfy this demand.

Other contacts also report tight labor markets. Restaurant and other food service establishments are having a difficult time finding staff. One restaurant delayed its opening for two

months because it could not find enough help, and a Tennessee hotel had to hire labor from overseas. The temporary employment industry is also encountering staffing problems.

Production has slowed at some firms, though, usually because of company consolidation or cost cutting. A national railroad is shutting a diesel shop in Missouri to cut costs; most of the 240 workers will be offered transfers, however. A contact in the paper industry reports that production of coated paper has been halted because of excess inventory. Sales of bleached paper, used in milk and juice cartons, are strong, though.

Wages and Prices

Contacts continue to report increasing costs for raw materials and labor. In contrast to previous reports, however, some contacts have indicated that these higher costs are being successfully passed along to consumers. Most of the cost increases are between 2 and 3 percent. One contact notes that his firm is able to increase prices now because the government has restricted foreign competition and his firm's major domestic competitor has left the market. Substantial increases in wheat and feed grain prices have caused most large poultry producers in the District to curtail planned production by about 7 percent. Because stocks of poultry meat are already high, retail price increases are not expected in the near term. The recent uptick in oil prices has boosted fuel costs for the transportation industry and increased consumer gasoline prices. An industry analyst notes that, through negotiated contracts, some trucking firms have been able to pass along a portion of this additional cost. A large manufacturer of synthetic materials reports that there has been a modest rise in petrochemical prices over the last month or so; however, it has been unable to pass along this price increase.

Real Estate and Construction

After a slowdown in January because of bad weather, residential construction activity picked up in February and March. In some parts of western Kentucky, there is still a backlog of

houses under construction, which is keeping contractors busy. Most contacts report that sales activity has also picked up; in some cases, existing homes are selling better than new homes. Mid-priced homes (\$125,000 to \$165,000) are the strongest sellers in most markets. Average sale prices in most District areas have remained stable, though. Contacts in most parts of the District continue to report strong nonresidential construction.

Banking and Finance

Total loans outstanding at 11 large District banks increased 2 percent between mid-February and mid-April, just slightly less than the increase in the same period last year. Commercial and industrial loans declined 0.1 percent, and consumer loans declined 0.8 percent, while real estate loans rose 3.6 percent. District banking contacts still describe loan demand as moderately strong and competition as aggressive, with one noting that loan pricing is “predatory.” Several contacts note a slight increase in nonperforming consumer loans, but indicate that current levels are not troublesome.

Agriculture and Natural Resources

Harsh winter weather conditions caused substantial damage to much of the District’s winter wheat crop, with the crops in Illinois, Indiana and Missouri generally in poor to very poor condition. Reports from Illinois suggest that as much as half of the state’s crop will be plowed under and planted with corn, soybeans or milo, while a quarter or more of the Missouri crop will be replanted. An early spring freeze in Arkansas caused an estimated 50 to 75 percent loss of the peach crop. Corn planting is generally proceeding ahead of schedule. Heavy rainfall across Missouri, southern Illinois and southern Indiana in late April caused isolated flooding in low-lying areas and along minor rivers and streams. As a result, some farmers may be forced to replant portions of their corn crops.

NINTH DISTRICT--MINNEAPOLIS

The pace of economic growth in the Ninth District is picking up somewhat after perceptible slowing in late winter. Vehicle sales are improving after a midwinter slump and there are some reports of increases for general merchandise. Manufacturers still have some slack, but a number of firms report that orders are once again increasing. Soaring grain prices are improving prospects for farmers, though optimism is tempered by a cold, late spring and depressed livestock prices. Once again, construction is very strong in most parts of the district. Metal mining and oil drilling and exploration are at the highest levels in this decade. As throughout the winter, tourist business varies by location, with eastern areas of the district fairly upbeat, but Montana and the Dakotas less so. Skilled employees remain hard to get, and unemployment rates are low. There are few reports of wage pressures. Price increases are concentrated in grains and energy-related items such as fuels and basic plastics. Inventories are reportedly normal for most firms except for paper products, some slow-moving automobile models and a few manufacturers.

Construction and real estate

“Building activity booms” and “Developers gearing up” are headlines in a Minneapolis paper describing office development in that city’s central business district, but they apply equally well to Ninth District construction as a whole. Builders in most areas of the district expect a strong construction season for the third or fourth year running. “Commercial builders in Minot expect to be very busy,” reports a North Dakota director. Minnesota single-family housing permits issued in February were 28 percent and 5 percent above the same month in 1995 and 1994. Home builders in Sioux Falls, S.D., and other regional centers also expect good business.

A fourth consecutive strong year for large, publicly let projects is developing in Minnesota, South Dakota and North Dakota. Contracts let through March are about 25 percent above the same period last year. State highway and bridge projects predominate, but construction of schools, municipal buildings, churches and private commercial building are all strong.

Markets for existing real estate are also active. March 1996 sales of existing homes were up nearly 13 percent over March 1995 in the Minneapolis-St. Paul metropolitan area and realtors report continued strength in listing and sales in April. Strong markets for existing housing are similarly reported in several other areas.

Natural resource industries

Ninth District resource extraction industries are feeling their oats. “With the plants already running wide open and order books full, there’s little room for more downtime,” is an area newspaper’s recent description of the predicament of Lake Superior iron mines as they try to make up for slowdowns caused by harsh weather earlier in the year. Iron shipments from Lake Superior

ports began in early April in spite of adverse weather. The principal gold mine in South Dakota reported a large addition to its known reserves, and its ratio of reserves to annual production is now the highest in two decades. Oil drilling and especially seismic exploration are at their highest level in North Dakota in 15 years, and production continues to inch upwards after having declined slowly for the decade through 1994. In contrast to strength in the minerals sectors, paper output continues to slow, with increased reports of selective downtime.

Agriculture

Unseasonably cold, wet weather has delayed tillage planting in all district states. Such spring activities are two weeks or more behind five-year averages. But soil moisture levels are as near optimal as at any time in the past four years, with few areas having either strongly surplus or strongly deficient soil moisture levels. Bankers and extension agents expect planting to progress rapidly once temperatures rise. Fall-seeded crops such as winter wheat and rye, which constitute a small fraction of total crop plantings, are in fair to good shape in contrast to the much-publicized deteriorating condition of such crops in other states.

Continuing increases in grain prices are improving farm incomes, although many rural elevators continue to report difficulty in securing railroad cars to transport grain to ports. Most observers expect higher prices to persist through harvest, and farmers reportedly are responding by planning the highest plantings of major crops in years. Supplies of inputs such as fertilizer, pesticides and seed are generally adequate, although some seed suppliers report that farmers are already trying to exchange longer-season varieties for shorter-season ones, and that short-season varieties will be extremely scarce if adverse weather persists.

Manufacturing

Manufacturing apparently is picking up, although reports vary considerably by sector and firm. "Business is pretty good," says the owner of a Minnesota chemical products firm. "Things picked up a bit after January," reports a farm machinery firm in North Dakota. Makers of some industrial machinery and metal components continue to describe soft orders, but printers and electronic equipment and medical device manufacturers note some strengthening. And one circuit board manufacturer announced plans to add 1,000 more workers by early 1997. Industrial electrical use has not grown from year-earlier levels, however. Most manufacturers report normal inventories for their own businesses and their suppliers

Consumer spending

"Cars are selling pretty well, things picked up in February and haven't slowed down," reports a South Dakota industry spokesperson. Vehicles and farm machinery are both selling pretty good," is

the word from North Dakota. “We can’t get enough of the light pickups and sport/utility vehicles says a St. Paul, Minn., auto dealer.

General merchandise sales also show some improvement from earlier in the year. “Traffic picked up in March and sales are excellent now,” reports a South Dakota mall manager. A Minnesota department store executive notes improvements in sales for most lines since late winter. “Business is booming,” says a retail spokesperson from Fargo, N.D., “but I think much of it comes from the way this town is growing.” Other industry sources point to the difficulty of separating structural changes in retailing from changes in consumer spending. “Sales tax receipts at the state level from retail sales are consistently well above year-earlier levels, but our Main Street stores are dying,” says a North Dakota director.

Tourism

Montana had a disappointing winter tourist season, but hopes are that warmer weather will bring a good summer season. Unseasonably cold weather hurt business in all states in late February and in March, although the late spring prolonged cross-country skiing and snowmobiling in Minnesota, Wisconsin and the Upper Peninsula of Michigan. “But even the snowmobilers are getting sick of it,” says one Upper Peninsula business owner. Prolonged ice cover in lakes and cold temperatures is raising concern about spring fishing opener participation. But overall, business owners and tourist officials are optimistic about prospects for the spring and summer.

Employment, wages and prices

“First 19-year old bus driver” headed a recent article describing how the Minneapolis-St. Paul metropolitan transit system lowered its hiring age to secure desperately needed drivers. This is yet another indicator of how tight labor markets remain, especially for skilled blue collar workers. Fast-food and other service businesses employing low-skill workers have similar problems filling rosters. “I hate to see service slip the way it is,” said one manager, apologizing for long checkout lines, “but we just can’t get the people we need.” Unemployment rates continue well below national averages. There are scattered reports of wage increases in the 4 percent to 5 percent range. One large telemarketing firm announced a layoff of nearly 600 workers, but explained that these jobs are being moved to Florida because of a need for bilingual Spanish-English workers.

Energy price increases, particularly for spot buyers of natural gas and for trucking firms, are the most widely noted price pressure. Some manufacturers who use polyethylene or polystyrene for packaging report rapid price increases from mid-February on, and low inventories by producers. “But cardboard prices are just in a freefall,” reports one. Cash grain prices are soaring, and flour prices are following with only a slight lag. But a price war among breakfast cereal producers and plummeting livestock prices have thus far limited perceptible food price increases for consumers.

TENTH DISTRICT - KANSAS CITY

Overview. The district economy continued to grow at a moderate pace during the past month. Retail sales strengthened, manufacturing and homebuilding activity remained brisk, and activity in the energy industry increased slightly. In agriculture, farm income prospects weakened due to dry weather and weak profits in the cattle industry. District labor markets remained tight, with some manufacturers reporting rising wages for skilled labor. Prices of manufacturing materials and retail products generally held steady.

Retail Sales. Most retailers report that sales increased moderately last month and remained above last year's level. Apparel sales were strong while furniture and appliance sales were weak. Reports were evenly divided on sales prospects for the months ahead, with some retailers expecting sales to hold steady and others expecting sales to strengthen modestly. Most retailers indicate inventories are in line with expected sales, although some plan to trim inventories. Automobile dealers also report sales increased last month and remained above the year-ago level. Dealers note that high consumer debt has eroded the quality of automobile loan applications. Nevertheless, sales are expected to remain strong, and most dealers are expanding automobile inventories in anticipation of continued sales strength.

Manufacturing. District manufacturers report that plants are operating at moderate to high levels of capacity use. Few manufacturers report production bottlenecks due to capacity constraints. Manufacturing materials remained readily available, and lead times required to obtain materials continued to decline. Nearly all of the manufacturers were trimming inventories, with some indicating the reduction was a normal seasonal occurrence.

Housing. Most builders report starts of both single-family and multifamily homes held steady last month and remained well above last year's pace. Builders generally expect steady

construction activity through the summer. Sales of new homes also held steady last month and stayed much stronger than last year's level. Builders report the inventory of unsold homes remained lean with home prices somewhat higher than the year-ago level. Building materials are readily available, although materials prices have increased slightly during the past year. Builders expect little change in materials availability or prices in coming months. Mortgage lenders report mortgage demand remained strong last month and should increase seasonally this summer.

Banking. Banks generally report total deposits grew faster than loans last month, slightly lowering loan-deposit ratios. Most banks report gains in demand deposits, NOW accounts, MMDAs, small time and savings deposits, and IRA and Keogh accounts. Large CD deposits were steady. Banks also report gains in commercial and industrial loans, home mortgages, home equity loans, and commercial real estate loans. Consumer loans and construction loans held steady, and agricultural loans declined slightly. Security investments increased.

Most banks held their prime rate steady last month, and few expect to change their prime rate in the near future. A few banks raised their consumer lending rates slightly, but most expect no change in the near term. Some banks also tightened their lending standards slightly.

Energy. Despite strong energy prices, activity in the district energy industry picked up only slightly last month. Prices of natural gas and crude oil stayed well above year-ago levels, even though natural gas prices declined recently. The average number of drilling rigs operating in the district during the first three weeks of April rose slightly from the month before and matched last year's level.

Agriculture. The driest winter and spring in decades has hurt yield prospects for the district's winter wheat crop. Among district states, the drought is most severe in Oklahoma and Kansas, where about 60 percent of the crop is rated in poor or very poor condition. In Kansas,

usually the nation's leading wheat producing state, current estimates suggest the harvest may be half as large as normal. The dry spring weather has been ideal for preparing fields for the district's spring-planted crops, but concerns are growing that a continued dry spell could also trim corn and soybean yields.

Large supplies of beef and competing meats continue to hold down cattle prices, while soaring grain prices boost feed costs. As a result, many district cattle feedlots and ranches are operating at a loss. With financial losses accumulating and forage supplies limited by the continued dry weather, some district ranchers have begun to reduce the size of their herds.

District bankers generally expect the quality of their agricultural loan portfolios to weaken somewhat in 1996. High grain prices will help offset crop losses caused by the drought, shoring up incomes for grain producers. But bankers expect profits to be scarce in the district cattle industry in 1996. Overall, district bankers expect strong balance sheets to enable most farmers and ranchers to withstand the rough year.

Wages and Prices. Although labor markets remained tight in much of the district, employers report few wage increases. Some retailers report a shortage of available workers, but wages have held steady since a normal annual increase at the beginning of the year. Manufacturers report shortages and rising wages for some kinds of skilled labor, especially welders and machinists. Prices of manufacturing inputs were generally flat during the past month, although several manufacturers report a decline in steel prices. Prices at the retail level held steady last month but remained somewhat higher than last year's level.

ELEVENTH DISTRICT--DALLAS

Eleventh District economic activity picked up in March and April. More contacts reported price increases and lower inventories than in January and February, but there were fewer reports of wage pressures or labor shortages. Manufacturing orders rebounded, although several producers said activity was below the level of a year ago, and demand for semiconductors and telecommunications equipment remained weak. Business service firms reported a seasonal increase in demand, and retail sales improved. The financial services industry reported mixed lending activity over the past 6 weeks. Construction and real estate activity remained brisk, and energy activity strengthened. Drought, low cattle prices and high costs continued to stress the agricultural community.

Prices were up for crude oil, crops, petrochemicals, plastic packaging, steel, lumber and some primary metals, and semiconductor prices had stopped falling. Apparel, paper, computer and livestock prices were lower. Producers of cement, brick, crude oil and petrochemicals said that their **inventories** were below desired levels, while inventories were up for newsprint, lumber, and semiconductors, particularly memory chips. Semiconductor inventories were much too large—roughly 50 percent higher than 6 months ago—but are "not even close to inventory levels of the big semiconductor cycles in the 1970s and 1980s." Telecommunications and computer manufacturers said inventories were slightly larger than desired, and heavy competition was keeping downward pressure on personal computer prices. Shortages of cement led producers to ration customers. Brick plants in Texas are reported at near capacity, but strong demand had not yet led to higher prices. Low inventories pushed up crude oil prices to between \$23 to \$25 per barrel for most of April, although oil futures suggest prices will decline. Prices were up for plastic packaging materials, but prices continued to fall between 5-8 percent for all types of paper products, and producers said their

customers had excess inventory of newsprint. In March, lower prices for livestock outweighed higher prices for most crops, pushing down the Texas All Farm Products Index of Prices Received to 1.0 percent below last month's level. Food processors said high grain prices raised costs and caused some producers to reduce production and boost selling prices.

Manufacturing orders rebounded, although several producers said activity was below the level a year ago and demand for semiconductors and telecommunications equipment remained weak. Demand was up for apparel, lumber, brick, cement, primary and fabricated metals. Paper producers reported a notable rebound in demand for corrugated boxes, although demand for newsprint dropped. Demand for petrochemicals began to increase from both domestic and foreign customers, after what producers report was a successful soft landing for their industry, with continued profitability and no inventory build-up. Oil field machinery firms continued to report strengthening demand and good profits. Cold weather and snow in New England stimulated demand for heating oil at District refineries, causing a delay in the switch over to gasoline production. Gasoline inventories were 5 percent under last year's levels, with the driving season starting at the end of May. Electronics firms reported a slight increase in demand for computers, but demand for memory computer chips and microprocessors continued to be below expectations. Overall, semiconductor demand in real terms was growing at about a 10 percent annual rate, compared to 30 percent five months ago. Demand for telecommunications equipment also weakened, mainly due to softer sales in Europe. Electronics contacts were very cautious about the outlook for sales, expecting only slight increases in the volume of sales into 1997.

Business service firms reported a seasonal increase in demand. Several firms were hiring and there were fewer reports of difficulty finding qualified workers. Demand was up for passenger and cargo transportation, temporary, accounting and legal services. Firms supplying temporary workers said that demand for workers to staff telephone call centers was particularly strong.

Retail sales continued to improve, although contacts said competition remains very stiff. Retailers must use heavy promotion to attract the "price-driven consumer" because there are "too many stores in Texas." Auto sales picked up, particularly for used cars.

The **financial services** industry reported mixed lending activity over the last 6 weeks. Higher long-term interest rates led to a slight decrease in residential real estate lending, and a sharp drop in refinancings. Contacts reported some increases in consumer and commercial real estate loans. District lenders were cautiously optimistic in their outlook for loan demand in the next 3 to 12 months.

Construction and real estate activity remained brisk. Homebuilders reported a pickup in new and existing home sales, although they are concerned that rising mortgage rates could damp demand later in the year. Apartment leasing remained strong despite a large number of new units that were completed in the first quarter. Apartment builders continued to cut back on starts in anticipation of rising vacancies and slower growth in rents in the coming months. Office and warehouse leasing remained very strong and rents continued to rise. Contacts said construction of warehouse and office space increased, although labor shortages were causing some delays.

Energy activity continued to strengthen. Demand for oil services was boosted by increases in international and U.S. drilling activity. Seasonally-adjusted, the U.S. rig count was up by over 50 rigs in April—to over 825 rigs—with two-thirds of the increase in Eleventh District states. Natural gas drilling is pulling the rig count upward, and the Gulf of Mexico is well positioned to sell gas to the East Coast. International drilling continues to increase, particularly in Latin America and Africa.

Drought, low cattle prices and high costs continued to stress the **agricultural** community. Bankers reported an increase in the number of farmers and ranchers starting the year with large debt carryover, and expressed concern about the "serious problems" facing the agricultural community and the increased likelihood that some farmers and ranchers will quit or be forced out of business.

TWELFTH DISTRICT — SAN FRANCISCO

Summary

Reports from 12th District survey respondents indicate a healthy pace of economic activity throughout most sectors and areas in the District. Retail sales reportedly have firmed slightly since earlier in the year, and services continue to expand at a brisk pace. Manufacturing activity appears mostly solid. The District banking and real estate markets are very active, although the real estate sector in Los Angeles has not fully recovered from its lengthy slump. Price and wage increases continue to be moderate overall, with the notable exception of gasoline prices in California. However, respondents expect higher national inflation in the near term.

Business Sentiment

District respondents remain very optimistic regarding their respective regional economies, and their expectations regarding national economic growth improved markedly since the last survey. Among respondents, 70-80 percent see stable or improved prospects for national GDP growth and unemployment, up from 40-50 percent earlier this year. However, their outlook on national inflation deteriorated; nearly 50 percent expect higher inflation in the near term, up from 15-20 percent earlier this year. Approximately 80 percent of District respondents expect more rapid growth in their region than in the U.S. as a whole, with large majorities expecting stable or improved business investment, housing starts, consumer spending, and trade balances in their respective regions.

Retail Trade and Services

Retail sales are mostly stable in the District, and services continue to expand rapidly. Sales of clothing and other consumer goods improved somewhat relative to their pace earlier in the year, and inventories have been reduced for many retail goods. Grocery prices currently are stable but may soon increase due to continued high grain prices.

Among services, demand for communications services continues to rise rapidly; this includes both telephone and computer communication. Transportation demand also is robust. Both volume and prices are increasing on flights to and from Portland, and shipping port expansion is planned there. Shipping activity also is vigorous in Southern California, although a recent sharp rise in gasoline prices is affecting the costs of land transportation in the state.

Manufacturing

District manufacturing activity is solid overall, although with variability across sectors and states. In Nevada and Utah, respondents noted strong demand for heavy equipment and machine tools; order backlogs for the latter have persisted despite accelerating shipments. A Southern California manufacturer reports rising prices and reduced inventories for aluminum ingots, and substantial delivery lags on new trucks were reported in Oregon. In contrast, declining truck demand is prompting consolidation by a major truck manufacturer in Washington, and aluminum producers are operating well below capacity in that state. Also in the Pacific Northwest, prices for wood pulp and paper products have stabilized after substantial declines earlier in 1996, but slowed growth and reduced investment spending were reported for Oregon's food processing industry.

For the District's key high-tech electronics sector, respondents noted that growth has decelerated in recent months, and prices of semiconductors (particularly computer memory chips) remain at low levels. However, inventories of semiconductors and personal computers are coming down at rates characterized as "acceptable," and substantial expansion of semiconductor manufacturing capacity is planned in the Portland area.

Agriculture and Resource-Related Industries

Reports regarding western agricultural production are mixed, but respondents note that it is too early in the growing season to assess overall prospects for 1996. Demand is strong and prices are high for several crops, notably wheat and corn. Continuing high feed prices and drought conditions in the Southwest are leading cattle ranchers to ship large quantities of beef to market earlier than preferred. Production of tree fruit and grape crops in Central California are down from normal; although better than last year, farm earnings are somewhat low there, which reportedly is limiting investment and expansion plans.

Real Estate and Construction

Real estate sales and construction activity remain strong in most of the District. Brisk home construction activity and sales along with significant price increases over last year were reported for Washington, Oregon, Idaho, Nevada, and Utah. Commercial construction and sales also are strong in those states. In contrast, the commercial real estate market in Los Angeles remains soft, with high vacancies and limited new construction. Conditions appear slightly improved for residential real estate in the Los Angeles area; although sales are limited, prices are

no longer declining. Elsewhere in the state, residential and commercial real estate markets are very tight in the San Francisco Bay Area.

Financial Institutions

District banks report good earnings and loan quality in 1996. The one exception is Southern California, where consumer loan demand is still sluggish and real estate loan delinquencies are up, despite some signs of improved credit quality overall. Loan demand is very strong in most other areas of the District, although intense competition is holding margins down in fast-growth states. District banks continue to invest in computer equipment and other hardware at rapid rates, largely to facilitate increased reliance on electronic banking.