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Summary of Commentary on

Current Economic Conditions

by Federal Reserve District

November 1996

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

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TABLE OF CONTENTS

SUMMARY	i
First District - Boston	I-1
Second District - New York	II-1
Third District - Philadelphia	III-1
Fourth District - Cleveland	IV-1
Fifth District - Richmond	V-1
Sixth District - Atlanta	VI-1
Seventh District - Chicago	VII-1
Eighth District - St. Louis	VIII-1
Ninth District - Minneapolis	IX-1
Tenth District - Kansas City	X-1
Eleventh District - Dallas	XI-1
Twelfth District - San Francisco	XII-1

SUMMARY¹

Moderate economic growth continues to be reported in nearly all Federal Reserve Districts. Labor markets in most Districts remain tight, although wages pressures are generally not increasing except for some technical occupations and skilled workers. Retail prices are stable in most Districts although some firming, mainly in prices for materials and intermediate goods, is noted by Richmond, Atlanta, Kansas City, and Dallas.

Consumer Spending

Retail sales have increased in most Federal Reserve Districts. Sales have moved up in Boston, New York, Philadelphia, Minneapolis, Kansas City, and Dallas in the past four to six weeks, and San Francisco reported moderate improvement in recent months. Atlanta and St. Louis have had year-over-year increases. Chicago reported that retail sales have been flat in the past month but above last year's level. The only reports of weaker sales come from Cleveland, where sales were down compared to a year ago, and Richmond, where sales have moderated in the past month.

By product line, apparel sales have been relatively strongest in New York, Cleveland, Atlanta, St. Louis, Minneapolis, Kansas City, and Dallas. Home products were also selling well in Atlanta and St. Louis. Electronic products were selling strongly in Minneapolis and Kansas City but poorly in New York, Cleveland, and Chicago. Appliances were not selling as well as other types of products in New York, Chicago, and Minneapolis.

¹Prepared at the Federal Reserve Bank of Philadelphia based on information collected before November 23, 1996. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

All Districts that obtained information on inventories reported that stocks were in line with merchants' current or expected sales. Price discounting was increasing in Boston, New York, Philadelphia, and Cleveland.

Retailers' expectations for sales in the upcoming holiday season are modestly optimistic. In the Boston, New York, and Philadelphia Districts, merchants forecast gains ranging from 2 to 6 percent, year-over-year. Atlanta merchants expect a slight increase. In St. Louis, Kansas City, Dallas, and San Francisco the season is expected to be strong.

Auto sales were mostly steady in Districts that got reports from dealers. In Philadelphia, St. Louis, Kansas City, and San Francisco, sales were roughly unchanged in recent weeks but at a high level. The sole negative report came from Dallas where sales were characterized as sluggish.

Tourism has been strong in the nation's coastal states. Richmond, Atlanta, New York, and San Francisco report high hotel occupancy rates. Theme park attendance and bookings for winter stays at coastal resorts have been high in Florida. Minneapolis, however, reported lackluster tourism, although early snow has boosted business in areas popular with skiers and snowmobilers.

Manufacturing

Nearly all Districts reported continued expansion of manufacturing activity in October and November. The improvement was generally modest, although manufacturers in the Boston District said they were seeing year-over-year gains in orders and revenue of up to 15 percent. Less positive conditions prevailed in the Cleveland District, where production was just steady, and in the Atlanta District, where "an increasing number of factories are reporting decreasing production and shipments."

Boston noted strong orders for consumer durables, furniture, appliances, computers, and medical equipment. Dallas and Atlanta reported stronger demand for electronic products and

industrial equipment. Boston and San Francisco indicated that production of aircraft and related equipment was moving up. Dallas noted strong demand for energy equipment and oil machinery. Some disruption in the production of autos and related equipment because of strikes was reported by New York, Cleveland, and Chicago; Cleveland also noted that lost production was not scheduled to be made up.

Inventories were described as “normal” in the Cleveland District and “satisfactory” in the Kansas City District. Inventories were declining in Philadelphia. Producers of electronic goods in the Dallas District said their inventories were high but coming down.

Real Estate and Construction

All seven of the Districts reporting on commercial real estate markets noted improvement. New York and Dallas indicated continued improvement in office markets, and Richmond and Atlanta noted increases in rental rates and drops in vacancy rates. Commercial construction activity increased in the Districts of Richmond, Atlanta, St. Louis, Minneapolis, and Dallas. Richmond and Atlanta received reports of increased speculative construction of office buildings. Development of light industrial and retail space was also under way in Atlanta and Minneapolis. Minneapolis reported robust public infrastructure construction, and Dallas reported strong construction of extended-stay hotels in that city.

Districts reporting on residential real estate mainly observed slowing sales, although sales levels remained high. Richmond, Chicago, Minneapolis, and Kansas City reported slower sales. In the San Francisco District sales fell back somewhat in Arizona, Idaho, and Utah but increased in Washington, Oregon, and the San Francisco Bay area. Home prices were steady in Boston and New York, falling in Richmond, and rising in St. Louis and the stronger markets in the San Francisco District mentioned above.

Agriculture

In general, Federal Reserve Districts that surveyed agricultural conditions received good reports. Minneapolis noted that grain yields were “excellent and better than had been expected through the growing season.” St. Louis said that “initial reports suggest that yields were generally above average.” The soybean crop was plentiful in the Cleveland and Dallas Districts.

Minneapolis and Cleveland received positive reports on the potato crop. Other crops for which yields were said to be good were rice, peanuts, and sugar beets. Kansas City reported an excellent corn harvest, but Cleveland said the corn harvest in Ohio was about 20 percent below normal. Minneapolis and Kansas City reported that recently planted winter wheat was in good condition in their Districts, but Cleveland said seeding was hampered by muddy field conditions.

Dallas described livestock conditions as “good overall,” and Kansas City and Minneapolis said higher cattle prices have led to an increase in cattle at feedlots.

Natural Resource Industries

The current level of oil prices is prompting high and growing oil-field activity. Dallas noted that “high prices continued to boost demand for oil services,” and Kansas City reported that the District’s rig count rose 2.4 percent in October and was above the year-ago level. Minneapolis reported that “iron ore mining and oil drilling continue at the brisk pace that has prevailed for several months.”

Financial Services and Credit

Credit demand varied among Districts. Only Cleveland and San Francisco indicated growth in overall bank lending. In other Districts, lending was mixed. Competition for new lending was characterized as aggressive for business loans in Philadelphia and St. Louis, for consumer loans in Richmond, and in general in Cleveland.

In New York, Philadelphia, Cleveland, Atlanta, and San Francisco, banks reported deterioration in credit quality, especially for consumers. Tightening of credit standards was mentioned in New York, Philadelphia, Chicago, St. Louis, and Kansas City. No Districts reported easing credit standards.

Employment and Wages

Labor markets were characterized as tight in a majority of Districts. Districtwide labor market tightness persisted in Richmond, Chicago, Minneapolis, St. Louis, and Kansas City. Atlanta and Cleveland said labor markets were tight in many parts of their Districts. In most Districts employers said skilled trades workers and specialized technical workers were in particularly short supply. Boston reported that “demand for highly skilled temporary workers continues to outpace supply.” Richmond, Chicago, and San Francisco also noted strong demand for skilled construction workers. Chicago and Minneapolis said retailers were having difficulty hiring temporary help for the holiday season.

Reports from District banks do not indicate a generalized acceleration in wage increases despite growing reports of labor shortages. Cleveland, for example, said that its contacts see “few signs of any significant rise” in wages, and Atlanta said “reports of increasing wages are infrequent in the region.” Minneapolis reported that “many employers say there is no generalized upward pressure on compensation.” Nonetheless, there appear to be more instances of stepped up compensation, especially for highly skilled technical workers. Boston reports that in the area around that city “compensation packages to attract key technical employees are said to be escalating rapidly.” Richmond contacts reported more pronounced wage pressures in October than in September. A large temporary help agency reported to Chicago that wages in the Midwest were rising. Also in the Midwest, Kansas City noted “continued evidence of wage pressures,” especially in manufacturing.

Prices

District reports on prices suggest there has been virtually no change in trend recently. Boston contacts said “prices remain generally stable.” New York indicated “there has been little change in price pressures.” Cleveland and Richmond characterized price increases as “modest.” Chicago reported that “price pressures remained largely in check.” Minneapolis received “few reports of price increases for raw materials, consumer goods, or services.” Most manufacturers in Philadelphia and Cleveland indicated that both input costs and output prices were steady. Manufacturers in Chicago said their input costs were flat, and firms in St. Louis said the cost of materials were “stable to up somewhat.”

Exceptions to the relatively steady price picture are petroleum products and fuels, whose prices rebounded after falling in early November. Also, there were more reports of rising industrial prices in recent surveys in Richmond and Atlanta. Kansas City observed rising costs of “some manufacturing and construction materials,” and Dallas noted that “several industries reported a general firming in prices.”

FIRST DISTRICT - BOSTON

The New England economy continues to expand at a moderate pace. Most First District manufacturers are posting solid gains, retailers report scattered pick-ups in activity, and personnel supply firms continue to grow, but at a less hectic pace than in the recent past. The region's residential real estate markets are steady and growth continues at money management firms. Prices remain generally stable, contacts say, while wages are rising 2 to 6 percent and some employers note selective hiring difficulties.

Retail

Most retail contacts in the First District report a pick-up in sales activity for some period during October and the first half of November. They attribute these improvements, in some cases temporary, to colder weather, early holiday shopping, or increased promotions. Overall results for the six weeks vary, however, ranging from 10 percent sales declines to gains of 13 percent compared with a year earlier. Most respondents detect a rise in consumer confidence and view the economy as "OK but not exciting." They predict 2 to 6 percent sales growth in December; growth will be restrained because four fewer shopping days between Thanksgiving and Christmas could cut gains by as much as 3 to 5 percentage points.

Vendor and customer prices remain stable, although one respondent cites continued declines in apparel prices. Lumber prices have stabilized, following a significant rise and fall earlier this year. Retailers have intentionally trimmed inventories compared with a year ago to avoid last January's overstock. Most contacts are posting increased profits and gross margins, which they attribute to better inventory management. Only one retail chain noted major increases in capital spending and employment. Merchants plan to increase wages 2 to 5 percent in 1997.

Manufacturing

Most First District manufacturing contacts report continued 5 to 15 percent growth in revenues and/or orders from year-ago levels, and they are at least cautiously optimistic about future business. Demand

for furniture, appliances, other consumer durables, and medical and computer equipment is said to be strong. Contacts are experiencing moderate to rapid growth in automotive-related business, but some express concern about a possible slowdown late next year or thereafter. Aircraft-related orders are picking up significantly, mostly as a result of improved profitability of commercial airlines. The semiconductor industry remains in a slump. One maker of consumer durables expects to raise production in order to replenish depleted inventories. Some of the remaining contacts express a desire to reduce inventories as part of an overall cost containment strategy.

Materials costs and selling prices remain fairly stable. A recent drop in component costs has led to a larger-than-normal drop in computer prices. Contacts report slight increases in the cost of selected metals, furniture-grade lumber, and chemical products, but falling costs for paper and packaging.

Just over half the respondents report fairly stable U.S. employment levels; most others have increased employment. A couple of manufacturers indicate difficulties finding production workers, but an equal number indicate ample applicants. Companywide pay increases range from 2.5 to 6 percent. In the Boston area, compensation packages to attract key technical employees are said to be escalating rapidly.

Temporary Employment Firms

Personnel supply contacts in the First District report solid growth into the fourth quarter of 1996. The outstanding growth that earlier characterized the industry leveled off for most firms in the third quarter: revenues are now expanding 10 to 20 percent annually, down from 20 to 30 percent in 1995 and the first half of 1996.

Industrywide consolidation has increased contacts' reliance on partnerships and subcontracts with other personnel supply firms. Vendor-on-premises operations dominate, hurting smaller local temp firms and favoring national companies large enough to meet the full range of employment demands of clients.

Demand for highly skilled temporary workers continues to outpace supply, especially in technical and clerical fields. Wages have risen 8 to 10 percent over the past year, but this reflects primarily an influx of

workers from higher-paying sectors rather than expanding wages of individual workers. Tightness in the labor market has forced temp agencies to adopt more aggressive recruiting techniques, including automated resume retrieval, personal networks, and the Internet, as well as enhanced pay and benefit packages.

Residential Real Estate

The residential real estate market in most of New England was stable in the third quarter. Sales volumes have been constant in most states, and contacts report no significant changes in prices. Contacts in Rhode Island, Vermont, and Maine report that buyers have a large selection of houses to choose from in all price ranges. However, no price reductions have been observed so far. Low-end houses have been selling better than higher-priced ones.

The market in Massachusetts is doing better. Sales have gone up throughout the state, especially in the condominium and new construction markets. Massachusetts had the highest increase in existing home sales in the country in both the second and third quarters. Despite the increase in activity, inventory grew slightly during the third quarter. While median sales prices rose moderately in most of the state, the increases largely reflect a shift in mix as people trade up to more expensive homes.

Overall, most contacts predict that the market will remain steady over the next few months. While low interest rates and a generally positive economic outlook should stimulate sales, activity usually slows in the winter.

Nonbank Financial Services

Investment management firms report substantial increases in assets under management since the beginning of the third quarter of 1996. Inflows into stock funds were high in September and slowed somewhat in October. Bond funds experienced inflows in September but were in net liquidation in October. Most respondents increased employment in the third quarter. Salary increases are reported to be about 5 percent, the same as last year.

SECOND DISTRICT--NEW YORK

The Second District's economy continues to expand at a moderate pace, with little change since the last report. Sales at large retailers slowed in late October, but were generally back on track in early November, with sales running on or above plan. Manhattan's commercial real estate markets remain strong, while the housing market has improved slightly. Unemployment leveled off at a cyclical low of about 6 percent in October, while private-sector job growth continued to slow. The Canadian GM strike reportedly had some effect on manufacturing activity in upstate New York in October, although purchasing managers surveys indicate only a modest deceleration in growth. There has been little change in price pressures since the last report; however, retailers report somewhat heavier discounting in recent weeks. Finally, regional banks report weaker loan demand, slightly tighter credit standards and some further increase in consumer delinquency rates.

Consumer Spending

Most general merchandise retailers report that sales were on or above plan in early November, following a bit of a slump in the second half of October. Large retail chains continue to cite apparel as the strongest category with two contacts noting particular strength in children's apparel. Home goods (especially electronics and appliances) remain the weakest segment, though one large home improvement chain reports that sales are ahead of plan and up more than 10 percent from a year ago, on a same-store basis.

Virtually all retailers report that inventories are at desired levels; only one contact reports that they are a bit high. Looking ahead to the upcoming holiday season, all of the retailers surveyed still anticipate the same sales gains as in the last report—these range from 2.5 to 6 percent on a same-store basis. A Conference Board survey conducted every November shows consumers in the region planning to spend 13 percent more than last year, on average, despite low levels of consumer confidence.

Selling prices are essentially flat; a number of contacts note a pickup in discounting activity in recent weeks, although some simply attribute this to merchants eager to get a jump on the shorter-than-usual holiday season (due to a late Thanksgiving). Merchandise costs remain virtually flat, and there has been no reported increase in wage pressures.

Construction & Real Estate

The region's housing markets appear to have strengthened somewhat since the last report. Sales of existing single-family homes were brisk in October (however, this reflects contracts signed a few months prior and so may be a lagging indicator). While home prices are running less than 2 percent higher than a year ago, unit sales are up nearly 10 percent; moreover, in October, seasonally-adjusted unit sales surged to their highest level of the year. In general, market conditions remain strongest downstate, though there has been a substantial pick-up in the Albany area in recent months (albeit from low levels). Home builders in New York and New Jersey report that the market for new homes remains fairly stable.

Manhattan's commercial real estate markets remained strong in October. Midtown's office availability rate declined from 14.2 to 13.9 percent, led by an "outburst of leasing activity"; downtown's rate held steady at 23.4 percent. (Availability rates include vacant space, as well as space coming on the market over the next six months to a year). Commercial rents were essentially flat.

Manufacturing

The Canadian GM strike reportedly had a temporary ripple effect on upstate New York's auto-related industries and jobs in October. Still, regional surveys of purchasing managers suggest that manufacturing activity continued to expand in October, though at a more moderate pace than in September. New York City area purchasing managers, though less euphoric than a month ago, still expressed a favorable view of the local manufacturing sector. The Buffalo-area survey indicates that

production expanded at roughly the same pace as in September, although growth in new orders and employment slowed. Respondents in both localities reported little or no change in price pressures.

Other Business Activity

Job growth continues to slow, while regional unemployment—which had been trending down earlier this year—has leveled off at a cyclical low. New York's unemployment rate held steady at 5.9 percent in October, while New Jersey's edged down from 6.2 to 6.1 percent. Private-sector job growth in New York and New Jersey slowed further in October, partly due to the GM strike in Canada.

However, income growth remains strong, largely fueled by the bull market on Wall Street, and tax receipts continue to grow at a fairly strong pace—New York City recently revised up its projected FY 1997 revenues by \$450 million. Tourism remains strong, with hotel occupancy rates holding steady at 16-year highs and room rates up more than 15 percent from a year ago.

Financial Developments

According to a survey of senior loan officers at small to medium sized banks in the District, overall demand for loans fell during the past two months. The sharpest decline was in the residential mortgage segment, with demand down at 45 percent and up at only 16 percent of the banks surveyed (possibly signaling an incipient slowdown in housing). Demand for consumer loans, however, rose moderately. Refinancing activity for all types of loans was flat. Fewer banks than in the prior survey reported increased willingness to lend, and more banks tightened than eased their credit standards.

Average loan rates declined for all types of loans. The residential mortgage segment experienced the largest decline, with rates lower at almost 40 percent of banks and higher at only 7 percent. In contrast, average deposit rates were flat at almost two-thirds of participating banks. Delinquency rates continued to climb, on balance, with 31 percent of banks reporting a general increase and 22 percent indicating declines; the largest reported increases were for consumer loans.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District was up modestly in November according to reports from the region's businesses. Manufacturers noted increases in orders and shipments, although employment in this sector appeared to be just steady. Retailers said customer traffic increased near the end of the month and sales picked up seasonally. Auto dealers reported that sales for the month were steady and at a healthy pace. Inventories at both manufacturers and retailers appeared to be in line with sales. Bankers generally said overall loan growth continued during November but the pace of growth slowed. Consumer and real estate lending remained on an upward trend, but commercial and industrial lending was flat.

Looking ahead, Third District business contacts see further improvement, but they do not expect strong gains. Manufacturers forecast increasing demand for their products that will lead to some stepped-up hiring in the next six months. Retailers forecast about a 5 percent increase in the dollar value of sales this Christmas season compared to a year ago. Auto dealers expect sales to continue at their current rate. Bankers expect consumer and real estate lending to continue moving up, although they anticipate some slowing in the growth of consumer lending, especially credit cards, as they implement somewhat tighter credit standards. They expect business loan volumes outstanding to remain near current levels.

MANUFACTURING

Manufacturing activity in the Third District moved up slightly in November, according to reports from plants in the region. About three of ten of those polled noted gains in orders and

III-2

shipments while two of ten reported declines. Most of the drops were reported by manufacturers of durable goods, while producers of nondurable goods generally experienced improved business in November compared to October. Despite the apparent lower demand for durable goods, firms in this sector reported declining inventories, on balance, and little change in working hours. Producers of nondurable goods gave similar reports. Total employment at Third District manufacturers in all sectors was steady during the month.

Industrial prices in the region were mainly steady, according to comments from manufacturers. Eight of ten said both their input costs and their own selling prices were unchanged in November compared to October. Two-thirds of the firms contacted for this report expect prices to remain level during the next six months, although one-third anticipate increases in the costs of the goods they purchase and one-fifth plan to raise the prices of the products they make.

Nearly half of the manufacturers polled in November expect demand for their products to increase during the next six months while fewer than one-fifth expect demand to decline. One-third of the surveyed companies plan to hire more workers over the period, twice the number of firms planning employment cutbacks.

RETAIL

Most of the Third District merchants surveyed in November said customer traffic had increased sharply recently and the seasonal upswing in sales had begun. Department stores, in particular, noted a higher sales rate in November compared to October, although some store executives cautioned that promotional pricing was responsible for a significant share of the gains. For all types of stores, inventories were generally described as consistent with the current sales

rate.

While some merchants expressed concern that there will be fewer shopping days than usual between Thanksgiving and Christmas this year, most said consumer confidence appears to be high and they do not expect calendar effects to have a negative impact on sales. Retailers forecast increases in the dollar value of sales for the Christmas shopping period of about 5 percent, on average, above last year's level. Retailers of apparel, toys, books, and recorded music expect to match or exceed the gains they have posted in recent years while some stores specializing in consumer electronic products anticipate lower annual increases this season than in past years.

Auto dealers in the region indicated that sales were steady and at a healthy pace in October and November. They expect a seasonal slowing in December and January, but generally anticipate that sales will return to their current rate after that. While some dealers expressed concern that rising consumer debt levels may begin to trim auto sales, others cited continuing high measures of consumer confidence in support of optimistic expectations for sales in the near future.

FINANCE

Most of the Third District bankers interviewed for this report said loan volumes were growing slowly as consumer and real estate lending moved up while commercial and industrial loan levels were mostly flat. Credit card and direct personal loan volumes increased at most of the banks in the region in November. As bankers implement more restrictive credit standards to stem the increase in consumer loan charge-offs that they have experienced recently, they expect some slowing in the growth of consumer lending, absent seasonal factors. Despite such

III-4

limitations, bankers continue to focus on consumer markets for new business, for both loans and investment products.

Lending to businesses remains very competitive as nonbank lenders and banks not based in the region continue to solicit local firms. Bankers also said the market for real estate lending, both residential and commercial, is competitive on rates; they added, however, that commercial real estate borrowers are expected to have substantial equity interests in their properties.

IV-1

FOURTH DISTRICT - CLEVELAND

General Business Conditions

The District economy remains strong overall and is growing moderately in most areas. Price and wage increases are modest.

Labor markets are characterized as “tight” in many parts of the District, but especially in central and southwestern Ohio and northern Kentucky. Many areas report unemployment rates under 4%, and in a few locations the rate has dipped below 3%. While several sources are expressing concern over the potential for substantially higher wage growth, there are few signs of any significant rise at present.

Employment agencies report the demand for temporary workers is strong, with low-skilled workers in short supply. In the past few months, a growing number of corporate clients have begun hiring temporary workers on a permanent basis.

Manufacturing

Production at a wide variety of manufacturing facilities is holding steady at a high level. Capital goods producers generally note good production and orders numbers, although heavy truck manufacturing is still off substantially from earlier in the year. Firms with significant export markets have seen a recent strengthening in foreign orders, and one source indicated that orders growth in Latin America has been especially strong.

Manufacturers continue to report pressure to hold prices down, and few are seeing any unusual cost pressure. A shortage of engineers and other technical workers has also been reported.

IV-2

In mid-November, a few large District auto assembly and manufacturing plants were temporarily shut down because of parts shortages stemming from the Canadian Auto Workers' strike against GM. Some plants were closed for up to two weeks, resulting in nearly 7,000 layoffs Districtwide. Production has since returned to normal, although no makeup of lost production is currently scheduled.

Agricultural Conditions

Recent cold and wet weather caused minor problems for the District's farmers. Snow fell in parts of all four District states during the first two weeks of November, ranging from a few inches in some areas to as much as 70 inches in parts of northeast Ohio. Farm activity was curtailed in many places because of muddy fields, hindering winter wheat seedings.

The soybean crop is reported to be plentiful and in good condition. Potato and apple harvests in Pennsylvania and Ohio are nearly complete, and reports for these crops are also favorable. However, as of mid-November, the corn harvest was still about 20 percentage points below average in Ohio. In Kentucky, blue mold has affected the weight and quality of burley tobacco.

Retailing

District retailers report mixed sales patterns, but overall, sales seem to be running behind last year's pace. Sales of furniture and consumer electronics have been particularly slow, while major appliances and apparel have been moving well. Seasonal items, such as

IV-3

winter apparel, are also selling well, especially in areas of the District that received heavy snowfall early in November.

Despite some disappointments with the overall sales picture, retailers seem cautiously optimistic about the holiday shopping season. Inventories are being expanded in line with expectations of increased store traffic. Prices are reportedly stable, except in electronics, where deep discounts are common. Many stores have already hired seasonal help, but a few report difficulty finding qualified workers for some positions. A variety of chain stores have recently expanded into the District, particularly in Ohio.

Auto Dealers

While dealers are pleased with year-to-date sales levels, the past few months have been disappointing, with most dealers reporting sales at or slightly below last year's levels. Some of the slowdown has been attributed to the recent heavy snows, but in parts of the District where the weather remained mild, sales were only slightly better. Sales incentives have been unusually generous and widespread for a new model year. A few dealers are anticipating an end-of-year surge, but the majority note that year-end sales upticks have been negligible in the past few years.

Inventories remain near desired levels, with shortages reported only for the most popular models and for light trucks.

Banking and Finance

Loan demand is mixed, as community banks report strong growth in credit while larger institutions are seeing more moderate gains. Overall, loan delinquency rates remain

IV-4

stable, although a few large banks have noted an increase in credit card delinquencies.

Declining credit quality--based on fierce competition for borrowers--remains an issue at many institutions. To date, though, the deterioration is generally characterized as modest.

In general, bankers are experiencing a narrower spread between borrowing and lending rates. Profits, however, are substantially improved from this time last year.

Refinancing activity is picking up as mortgage rates drop.

FIFTH DISTRICT-RICHMOND

Overview: Fifth District economic activity expanded at a slightly faster rate in the last six weeks, although the retail and housing sectors showed signs of slower growth. Manufacturing shipments expanded somewhat faster, and the service sector grew more quickly. Tourism improved, spurred largely by a recovery in the coastal areas. Loan activity edged up, and state tax revenues accelerated modestly. Tight labor markets and wage pressures persisted, but contacts noted only modest price pressures. The commercial real estate market continued to strengthen at a healthy pace, and fall harvesting and planting activity picked up in agriculture.

Retail: The pace of activity in the retail sector moderated in October. District retailers reported that sales grew more slowly and that shopper traffic and big-ticket sales declined. Employment fell slightly, but wage growth accelerated. Retailers continued to indicate that the federal minimum wage increase was leading them to reduce their workforce. Respondents noted that retail prices rose more slowly in October. Contacts continued to expect slightly higher prices and modestly lower demand for their products over the next six months.

Services: Service sector activity expanded at a faster rate in October as revenues, average wages, and employment grew more rapidly than in September. Several contacts to a survey noted that the minimum wage hike would cause them to trim employment in coming months. Service prices rose more slowly in October, and respondents expected larger price increases and greater product demand over the next six months.

Manufacturing: Growth in the manufacturing sector increased slightly in October. Respondents to a survey indicated that, compared to September, shipments edged higher and new orders strengthened somewhat. Employment growth changed little, and contacts indicated that labor shortages were somewhat more widespread. Several firms reported that

they had difficulty finding workers to replace those lost through normal attrition. Manufacturers indicated that prices for finished goods and raw materials grew at slightly faster rates than in September. However, some textile and primary metal manufacturers reported that foreign competition, aided by a strong dollar, caused them to lower their prices. Respondents continued to expect finished goods and raw materials prices to rise slightly during the next six months.

Tourism: Tourist activity rebounded in coastal areas, and continued to show strength at mountain resorts in October. A Virginia Beach hotelier noted that his business improved from last year, when federal furloughs hampered tourism. A respondent from a popular mountain resort in Virginia stated that tourist spending in October surpassed the levels of previous years and remained strong during early November. Contacts reported that fall bookings were about the same as those of last year.

Port Activity: Representatives at District ports indicated that import and export levels were higher in October than in September. Most port contacts expected import levels to rise during the next six months, but expected little change in exports.

Temporary Employment: Reports of strong demand for contingent workers persisted, and agencies indicated that employers were now seeking workers across a broader range of job categories and skill levels. Contacts to a phone survey noted that wage pressures were more pronounced than in September. Respondents indicated that it had become increasingly difficult to find "decent" help, even with offers of higher wages.

Finance: District banks reported steady consumer lending and modest gains in commercial and mortgage lending. An increase in company acquisitions pushed commercial loan demand higher. Lower interest rates led many borrowers to refinance their home loans. Several contacts attributed the increase in refinancings to homeowners switching from adjustable-rate to fixed-rate mortgages. One respondent reported that fixed-rate mortgages

now represented three-quarters of his lending activity--up from one half. Lenders faced increased nonbank competition for consumer financing; one respondent said that she couldn't match the low interest rates offered by auto dealers.

Residential Real Estate: Residential real estate activity fell slightly during October and early November. Customer traffic, as well as home sales and prices, declined; housing starts and permits were steady. Many contacts across the District reported that lumber prices soared. Some builders in competitive markets like the Washington, D.C. suburbs reported that these higher prices squeezed their profit margins. In less competitive areas such as Charlottesville, Va., builders indicated that they were able to pass the price increases through to homebuyers. Builders continued to report skilled-labor shortages.

Commercial Real Estate: Commercial real estate activity accelerated in recent weeks. Office, industrial, and retail leasing activity remained at a high level, except in North Carolina, where activity escalated. One commercial leasing agent there reported that business was "incredible." Commercial vacancy rates declined further, and rents rose throughout most of the District. The availability of prime office space continued to tighten. Many contacts reported increases in speculative office construction in their areas.

State Revenues: State tax collections generally increased faster in October than in September. Individual estimated payments rose at a faster rate and real estate recordation tax receipts increased in all jurisdictions except West Virginia. In contrast, sales tax collections decreased and withholding and corporate income tax collections grew more slowly.

Agriculture: The pace of harvesting and small grain planting activity picked up during late October and early November. In the Carolinas and Maryland, drier weather allowed farmers to get planting and harvesting activity back on schedule. However, in Virginia and West Virginia, harvesting progress continued to lag somewhat behind the five-year averages because of unfavorable weather.

SIXTH DISTRICT - ATLANTA

Overview: Contacts around the Sixth District suggest that economic activity continues its moderate rate of growth on net, with signs of slowing apparent in some sectors. Retail sales continued to exceed year-ago levels in both October and early November, although retailers noted weaker sales in the latter period. District manufacturers indicate that production has recently weakened slightly, while their outlook has improved somewhat. Reports on tourism within the region remain overwhelmingly positive. Real estate contacts report that home sales and construction activity slowed in October. However, the single-family market continues to operate at a healthy level, and commercial real estate markets continue to improve throughout the District, with falling vacancy rates and robust levels of construction in many areas. Overall loan demand is characterized as moderate. Labor shortages persist in many areas of the District, but wage pressures reportedly remain subdued.

Consumer Spending: According to District retailers, sales in October and early November exceeded year-ago levels. Sales increases were stronger in October than in early November on a year-over-year basis. More than half of the retailers contacted said that recent sales had met their expectations, and most retailers report that inventories are on target. Apparel, cosmetics, shoes, and home-related products are among the top sellers within the region. Looking toward holiday sales, most retailers anticipate a slight increase over last year, while the remainder expect a more significant increase.

Manufacturing: Since the last Beigebook, an increasing number of factories are reporting decreasing production and shipments. However, more reported expectations for improved future business activity, and most manufacturers expect to maintain current employment levels for at least

the next few months. Contacts in the food, paper, and lumber and wood industries report slowing activity. Although weakness persists for the region's apparel producers, one contact says that there have been fewer reports of shrinking employment rolls in the industry, perhaps indicating that a large portion of weaker firms have been culled out. More positively, orders for industrial machinery and electronic equipment have recently picked up at regional plants, and some Louisiana chemical plants are reportedly running at 100 percent capacity and are announcing expansions. Recently announced additions to Tennessee's automotive industry are expected to further industrial growth in the state.

Tourism and Business Travel: New attractions, expanded airline service, and strong international traffic are resulting in filled theme parks and high hotel occupancies in central Florida. Resorts on Florida's Gulf Coast and in south Florida report strong winter bookings, and spokesmen are confident that the trend will carry over into next year. Recently renovated hotels and recognition of the trendy South Beach area are boosting tourism to the southern part of the state; European and South American tourism is up from a year ago in Miami. Strong 1997 booking numbers show that Atlanta's convention business will bounce back from a pre-Olympic slowdown. Although the end of the year is traditionally slow for the Gulf Coast's casino business, spokesmen expect 1997 to usher in the fruits of large construction projects and new jet services.

Construction: According to real estate contacts, the single-family housing market slowed in October from the previous month. On a year-over-year basis, home sales were mixed within the District in both October and early November, while construction was generally characterized as flat. Despite the overall slowdown in the market, home sales and construction remain relatively high. Inventories of new and existing homes are said to be adequate for expected sales throughout most

of the District. Most builders anticipate no change in the level of construction through the end of the year, while Realtors' expectations are more mixed.

Contacts from across the District generally report that commercial real estate markets continue to improve. Declining vacancy rates and higher rental rates continue to propel new industrial, office, and retail development. Although most commercial projects continue to be build-to-suits, several speculative projects are underway, and more are anticipated this year and next. Overall, the multifamily sector remains healthy; however, some markets have weakened.

Financial: Most contacts in the banking industry report a moderate level of loan demand. Consumer lending remains subdued with some strength in automobile financing reported. Commercial lending remains mixed throughout the District. Mortgage lending is said to be flat. There are also continuing reports of some softness in loan quality.

Wages and Prices: Reports of increasing wages are infrequent in the region at this time. However, reports of labor shortages in parts of the District remain common. Workers from overseas are being recruited and imported into some parts of the region to fill job vacancies. Craftsmen are in especially short supply. Contacts continue to report that strong demand for management talent is being met with benefits and fringes instead of higher salaries. Materials prices have increased slightly recently and are expected to continue to escalate moderately, but most contacts expect prices received for finished products to weaken or be unchanged over the next few months.

VII-1

SEVENTH DISTRICT--CHICAGO

Summary. The Seventh District economy, as in our last report, expanded at a moderate rate in October and early November, while price pressures remained largely in check. Consumer spending appeared to have rebounded from a sluggish September, and regional retailers reported that they were aggressively seeking seasonal workers. Housing activity continued to slow moderately, although most contacts continued to rate the market as strong. Manufacturers were operating at very high levels and indicators suggest a near-term pickup. Banking activity remained strong despite some softening in commercial and industrial lending. Very tight labor markets persisted, while overall job growth in the District lagged that of the nation.

Consumer spending. While still above year-ago levels, retail sales remained relatively flat in early November, following October's improvements. Several large retailers attributed overall sales gains to strength in apparel sales, aided partly by the onset of cold weather. Home appliance and electronic sales were soft compared to earlier months, but retailers expect a pickup in December. Inventory levels were considered to be in good to excellent shape by retailers. Several retailers noted that there will be a big push in promotional activity ahead, mainly because November sales targets will be hard to achieve with Thanksgiving coming so late in the month. One retailer, trying to maintain market share, reported plans to increase their price-discounting promotions. Most retailers, however, appeared to be focusing on boosting advertising to attract customers as early in the holiday season as possible. Retailers contacted remained very optimistic about sales during the holiday selling season (despite fewer shopping days), with Midwest sales expected to outperform other regions of the country. One major retailer felt that sales for the holiday selling season as a whole would not be affected by the late Thanksgiving because many consumers start their holiday shopping around mid-December.

Housing/construction. Housing activity continued to slow in the District, but most contacts reported that the market remained very strong. One of the region's largest realtors reported that October's existing home sales had decreased from the torrid pace earlier in the year, but it was still their second best October ever. New home sales also declined in October and early November in most areas but, again, remained at very high levels. A national survey of home builders suggested that the Midwest's early November sales continued to decline slightly from the late summer's weather-delayed gains. Builders noted a sharp drop-off in foot traffic, causing several builders to lower their expectations for the remainder of 1996 as well as the first

VII-2

quarter of 1997. Among building material suppliers, one major wallboard producer reported that shipments to the Midwest remained very strong, noting that there is about a three-month lag between changes in housing starts and wallboard shipments. This producer reported that the industry was able to push through a modest price increase in September and has announced another for December. If it holds up, as the industry expects, it would be the first time in several years that the industry was able to push through an increase this late in the year, a sign which this contact said indicates the strength in the market. Activity on the commercial side of the real estate market picked up slightly in recent weeks, due in large part to declining interest rates. One contact also reported that commercial refinancing activity was increasing.

Manufacturing. Despite some disruptions from the auto strikes, manufacturing activity remained strong in October and early November, with some reports suggesting a slight pickup in the pace of expansion. Several purchasing managers' surveys indicated moderate increases in October and November from already high levels of overall activity in September. New orders were particularly strong, but inventory building was also evident. However, prices paid remained relatively flat and, in one area surveyed, delivery times were shortening. A sharp increase in new orders of heavy-duty trucks was reported by the industry for October, with orders strength continuing into November. Heavy ordering occurred from the major haulers, something that was absent a year ago due to already huge backlogs at that time. A producer of heavy construction equipment reported that unit sales for the industry in October were slightly above year-ago levels. Appliance shipments, which declined in September on a year-over-year basis, rebounded in October and appeared to be holding up in November. Steel orders into the first quarter are strong, but new capacity coming online (albeit more slowly than the industry expected) is holding down price increases. Although a slowdown in auto production from the third quarter was widely expected, several auto suppliers reported a drop in their shipments related to auto production cutbacks during the GM strikes. A major supplier of chemicals noted a plateauing of demand in recent weeks that was at least partly linked to the auto strikes. Despite solid sales growth so far this year, this producer also reported that they have staunchly resisted price increases from their raw material suppliers.

Banking. Lending activity remained strong in October and early November, but growth in most areas of the District has plateaued. On the commercial side, several large regional banks described loan demand as flat to slightly down. Most of the recent activity has been driven by

VII-3

mergers and acquisitions, with little currently going to new plant and equipment purchases. However, some increase in inventory financing was also noted. On the consumer side, lending activity was still increasing, but at a slower pace than two months ago. Several medium-sized banks reported that home equity and home improvement lending was accounting for much of their activity. However, several area bankers cited lengthening terms on auto loans and less equity being put into loan transactions as an indication that consumers were getting stretched out. A consumer finance institution reported a rise in revolving credit balances, which also was interpreted as a potential sign of an increasingly debt-constrained consumer. However, this contact emphasized that overall credit quality in the Midwest remained very good. Several financial institutions reported some tightening of standards, but also indicated that much less was required in their Midwest markets.

Labor markets. The District's labor markets remained very tight in October and early November, with shortages in some sectors becoming particularly acute. Retailers have been finding it especially difficult to attract holiday help this year. A recent direct-mail promotion in Michigan advertising a retail "jobs fair" received a minuscule one percent response rate. Retailers in the state have teamed up with the state employment agency in a promotional effort to recruit seasonal workers. In addition, a temporary help agency in one of the District's large metro areas reported that orders were already coming in for tax help (accountants, business analysts, etc.) in mid-November, a month earlier than in past years. Perhaps because of historically low unemployment rates, most sectors' job growth was well below the national average (retail trades being an exception). Construction employment remained strong, while home builders in several areas reported that shortages of skilled labor persisted. Manufacturing employment levels continued a pattern of bouncing up and down slightly from month to month, with no trend evident in either direction. However, a national survey of hiring plans indicated that more manufacturers in the Midwest plan to increase their payrolls in the first quarter of 1997 than was reported a year ago. A contact at a national temporary help agency reported that margins were being squeezed in the Midwest due to demands for higher wages from workers and lower prices from clients.

EIGHTH DISTRICT - ST. LOUIS

Summary

The Eighth District economy continues to grow at a steady pace. District retailers report that sales were up about 4 percent in September and October over one year ago, and most are expecting a strong holiday season. Auto sales were mixed over the same two-month period, but most contacts expect a pickup through year's end. Most other contacts report continued growth in their industries, although some have noted a slowing in this growth. Labor markets remain tight around the District. Materials prices are generally stable to up slightly. Real estate markets are strong in most parts of the District. Loan demand, particularly for business loans, remains relatively strong. Farmers appear to have had a good crop year, with prices and yields generally above average.

Consumer Spending

Retail contacts report that September and October sales were up about 4 percent from one year ago. Toys, home improvement products and women's apparel were the biggest sellers. Contacts also report that their inventories are at desired levels. Most are expecting a strong holiday season, with electronic products, toys and jewelry leading the way. Moreover, most believe that the first quarter of 1997 will yield better sales than a year earlier.

Car dealers were split in their sales reports for September and October. While about half saw sales increase about 8 percent over the year before, the rest saw sales decline about 10 percent. Rebates have not been used any more than usual to move product. Most dealers are optimistic about sales prospects through year's end, and are even more upbeat about the first quarter of 1997.

Manufacturing and Other Business Activity

Most District contacts continue to report growth at their firms and in their industries. Hiring and keeping qualified workers because of tight labor markets remains a big concern for many companies. One contact remarked that firms are having particular difficulty finding qualified workers because the skills needed today are much more specialized than they were in the early 1970s, when similar unemployment rates existed.

Providers of transportation and delivery services are growing in the District, with both railroads and trucking firms adding workers. Trucking companies report that there is currently a severe shortage of drivers. The food and beverage industries also report sales and employment growth, with poultry processing firms adding workers and a beverage firm reporting sales increases over last year.

Other firms, while still reporting growth, have recently noted a slowing in this growth. A chemicals company reports that sales are still above last year's, but they are not as robust as they were a few months ago. Die cast producers have also seen a slowing in their volumes. A contact in the scrap metal industry has noted a slowdown in the steel industry's rate of inventory increase, perhaps portending a downturn in that industry. The District's apparel industry is still contracting, with two more plants closing because of foreign competition. About 750 jobs will be lost in total.

Prices

Most firms report that materials prices have been stable to up somewhat, but any increases have generally not been passed along to customers. Lumber, aluminum and natural gas prices, in particular, are reportedly higher, while scrap steel prices have recently fallen. Contacts also report nominal wage increases of between 3 percent and 4 percent for the coming year. One contact mentioned that some large customers are requesting rebates from suppliers in lieu of lower prices

for large contracts.

Real Estate and Construction

Residential real estate markets are strong in most parts of the District. Prices for both new and resale houses are rising. Monthly residential construction permits in September were up in only five of the District's 12 metropolitan areas. On a year-to-date basis, permits were up in nine metro areas. The three areas that were below last year's levels are all in the southern part of the District. Nonresidential construction is particularly strong in the southern part of the District, especially in northwest Mississippi. Parts of southern Illinois and western Kentucky are also seeing strong commercial construction.

Banking and Finance

Bankers across the District report continued strength in loan demand, especially on the commercial side. Credit is described as plentiful by most District contacts. Bankers in St. Louis and central Kentucky report aggressive competition for business loan customers. Some bankers have noted a softening of consumer loan demand and report being much more cautious in extending consumer credit in response to rising personal bankruptcies and consumer debt loads.

Agriculture and Natural Resources

With the fall harvest winding down, substantial rainfall during early- to mid-November in several parts of the District slowed the pace of activity to a near standstill. Initial reports suggest that yields were generally above average and, in some instances, outstanding for most crops. For example, Arkansas rice farmers expect yields to surpass the all-time high set just two years ago. Southern pine lumber mills report that orders on a year-to-date basis continue to outstrip last year's pace by a little more than 7 percent.

NINTH DISTRICT--MINNEAPOLIS

As winter sets in, the Ninth District continues to enjoy moderate economic growth with few problem areas. Unemployment remains low, and indications of very tight labor markets are widespread. In spite of reports of labor market tightness and of some wage increases, there are few reports of price increases for raw materials, consumer goods or services. Construction is brisk in many areas. Iron mining and oil drilling are very strong and paper production displays some signs of recovery from the slump experienced over the last year. Retail sales of general merchandise apparently are picking up, and increased strength in vehicle sales continues. The 1996 crop was excellent in most respects, the profitability of livestock production has recovered somewhat, and farmers reportedly are increasing their spending on household and capital items. Manufacturing shows moderate growth. Tourism is the weakest sector, continuing a pattern set earlier in 1996.

Employment, wages and prices

“Stores shop for workers,” headlined a South Dakota news article describing the extra efforts retailers are making to secure needed seasonal workers in an extremely tight labor market. Labor scarcity continues as the most-cited problem confronting businesses in the district. Reports of increases in pay or benefits to attract entry-level workers or skilled technical specialists remain frequent, but many employers say there is no generalized upward pressure on compensation.

Notwithstanding reports of compensation increases for entry-level and certain specialist employees, there are few reports of increases in the prices for goods and services. Petroleum products are one exception. Increased fuel prices are cited as a major cost increase for trucking firms and a Minnesota-based airline. One Minnesota chemical product manufacturer cites increases in the cost of all chemicals derived from petroleum or natural gas or whose production is energy intensive. At the consumer level, milk prices increased sharply from late September into November, but farm level milk prices were falling sharply in late November, and retail prices are expected to follow shortly.

Construction and real estate

“There are quite a few new motels going up in Sioux Falls.” “The ‘nuclear winter’ is over in downtown St. Paul commercial real estate market.” “Construction in western Wisconsin has been at record levels for six months.” “Twin Cities building permits up 15 percent from a year ago.” Reports such as this are widespread, revealing a construction and real estate sector that still has stamina after four years of expansion. The strength is broad-based across residential, commercial, light industrial and public infrastructure projects. Regionally, there are some reports of a slowing pace of residential construction in western Montana and eastern North Dakota, areas that had been strong for three years. Realtors in Minneapolis-St. Paul report good business for both residential and commercial property.

Natural resource industries

Iron ore mining and oil drilling continue at the brisk pace that has prevailed for several months, and industry spokespersons expect that pace to continue into 1997. An advisory council member from Michigan’s Upper Peninsula describes increased production at a paper mill in his area. Other paper industry contacts also describe some expansion of output, but production has not returned to the high levels experienced two years ago. Building board producers in the eastern portion of the district continue producing near capacity.

One exception to this pattern of strong activity in natural resources industries is traditional sawmills in western South Dakota and Montana, where output reportedly is stagnant or declining, largely due to reduced federal timber sales. Environmental concerns have blocked the partial reopening of a Michigan copper mine closed last year.

Manufacturing

“Sales are really pretty good, a bit slow in the summer, but getting better steadily in the fall,” says one Minnesota electronics manufacturer. “We are seeing a lot of small factories coming in, mostly metal fabrication,” says a utility manager from Michigan’s Upper Peninsula. On the whole, manufacturing in the Ninth District appears healthy, with good orders and growing output, but with few bottlenecks or input shortages. Contacts report generally normal inventories and no delays or difficulties in securing raw materials.

Agriculture

“Prices are somewhat better than we had expected,” comments a South Dakota rancher who believes that the price trough of the beef cycle was passed last spring and that both fat and feeder cattle prices will trend upward in 1997. Higher prices for feeder cattle are due in part to lower feed costs as favorable grain yields have put downward pressure on prices.

Grain producers generally have completed harvesting in most areas, and yields were excellent and better than had been expected through the growing season. Winter wheat seeded in South Dakota and Montana is generally in good condition. But the late harvest and early onset of very cold weather prevented much fall tillage, and farmers in Wisconsin, Minnesota and South Dakota will have to rush to catch up next spring. Overall production of sugar beets and potatoes in North Dakota and northwest Minnesota was also good.

Consumer spending

There are some indications that consumer spending has increased in late fall and early winter. Vehicle sales are described as good in many areas, with sales of pickup trucks reportedly very robust in North Dakota, South Dakota and much of Minnesota.

A large national retailer based in Minnesota reported improved earnings for the third quarter compared to somewhat sluggish performance earlier in 1996. A regional department store chain also describes improved sales in October and November. Reports from advisory council members around the district indicate general optimism among retailers in regard to the holiday season. Some sources indicate sluggish sales of major appliances, but say that sales of apparel and consumer electronics are stronger than in the first two quarters.

Tourism and recreation

“Tourism has been down 11 percent this year,” reports a motel owner from Rapid City, S.D. He is echoed by sources in other regions, who sketch a general pattern of lackluster tourist and recreation business continuing through the year. Western Wisconsin, where tourism has grown to match that of better-known scenic areas of the state, is one exception. The pheasant hunting season in South Dakota was about even with 1995. Early snow in northern areas has been encouraging to businesses serving cross-country skiers and snowmobilers.

TENTH DISTRICT - KANSAS CITY

Overview. The district economy continued to grow moderately during the past month. Retail sales increased, manufacturing and construction activity remained fairly strong, and energy activity improved somewhat. In the farm economy, an excellent harvest has brightened income prospects for crop producers, and higher cattle prices have restored profits to cattle feeders. Labor markets remained tight in much of the district, prompting a number of firms to increase wages. Prices rose for some materials used in manufacturing and construction. At the retail level, prices generally held steady.

Retail sales. Retailers report sales increased last month and were moderately higher than a year ago. Sales of apparel and electronics were brisk. Most retailers expect a strong Christmas season even though the late Thanksgiving may hurt sales somewhat. Retailers were generally satisfied with their inventory levels. Automobile dealers report sales were unchanged last month and expect sales to increase somewhat the rest of the year. Dealers have been expanding inventories, and some still do not have as many light trucks and sport utility vehicles as they would like.

Manufacturing. Manufacturers continued to operate last month at moderately high levels of capacity. Manufacturing materials were generally available, with lead times either holding steady or declining. Most manufacturers were satisfied with their inventory levels. A quarterly survey of district manufacturers indicated that production, shipments, and new orders all increased modestly from September to October.

Housing. Builders report housing starts slowed last month yet remained higher than a year ago. Starts of both single-family homes and multifamily units declined. Builders expect

little change in construction activity, except for the normal seasonal slowdown toward the end of the year. Sales of new homes also fell last month. Most building materials were readily available, and delivery times were normal. Mortgage lenders report slightly higher demand last month and expect little change the rest of the year.

Banking. Bankers report that loans remained unchanged and deposits edged up last month, slightly reducing loan-to-deposit ratios. Home mortgage loans, home equity loans, and commercial real estate loans edged up, while residential construction loans fell slightly. Demand deposits, NOW accounts, and money market deposit accounts all rose slightly, outweighing declines in large CDs and small time and savings deposits.

All respondent banks held their prime lending rates steady last month and expect to leave rates unchanged in the near term. Banks also held their consumer lending rates steady and plan no changes in the near future. A greater fraction of banks than in past months tightened their lending standards.

Energy. District energy activity improved somewhat last month, helped by higher prices for oil and natural gas. The district rig count rose 2.4 percent in October and was above its year-ago level.

Agriculture. District farmers are just completing an excellent fall harvest, including the largest district corn crop in a decade. The newly planted winter wheat crop is in very good condition and should provide plenty of wheat pasture for cattle, in sharp contrast with a year ago when there was virtually none. Prices for fed cattle have jumped well above breakeven levels recently due to a seasonal decline in beef supplies. The higher prices brought a huge inflow of cattle into district feedlots during the past two months. Many industry analysts expect prices to

soften when the cattle now in feedlots are slaughtered early next year. In contrast to cattle feeders, ranchers were still posting losses and continued to reduce the size of their herds.

The bumper harvest and record grain prices earlier in the year have improved the overall quality of farm loan portfolios at district banks. The quality of some cattle loans has declined somewhat after sizable losses in the cattle industry. Most cattle producers still have strong balance sheets, however, and an uptick in the demand for feeder cattle loans suggests producers are gearing up to take advantage of the recent increase in cattle prices.

Wages and prices. Labor markets were still tight last month, and there was some continued evidence of wage pressures. Manufacturers report skilled and unskilled workers remained in short supply, and a number of companies say they have responded by increasing wages. Prices held steady at the retail level and rose for some manufacturing and construction materials. Retailers expect no major price changes in coming months.

ELEVENTH DISTRICT--DALLAS

From mid-October to mid-November, Eleventh District economic activity rebounded from sluggish growth in September and early October. Several industries reported a general firming in prices after reporting falling prices in the last beige book, and contacts continued to report that labor market tightness was leading to some wage pressures. Rebounding home sales led a pick up in construction, which helped stimulate demand for some construction-related manufactured products. The electronics industry also reported rebounding sales and, overall, manufacturers were more optimistic about the sales outlook than reported in the last beige book. Retailers reported "good" sales growth over the past six weeks, while high prices continued to boost demand for oil services. The financial services industry reported a decline in the demand for loans. Continued rainfall improved agricultural conditions overall.

Prices. Several industries reported a general firming in prices after reporting falling prices in the last survey. Prices were stabilizing with a downward trend for semiconductors (including memory chips), after falling precipitously earlier this year. Prices remained very competitive with a downward trend for personal computers and telecommunications products. Retailers were pleased that prices were mostly holding steady, and a few noted that they are now able to pass on cost increases that they had eaten in the past. Still, retailers said that the market remains very competitive limiting price increases. Auto dealers said prices on new models are expected to be slightly higher "but nothing unusual." Low inventories are causing energy prices to swing with the weather. Crude oil prices weakened to \$22.50 in early November but rebounded to near \$25 per barrel after a cold spell in the Northeast. Heating oil and natural gas prices also fell and then rebounded, as low inventories are contributing to weather-related price volatility. Scrap metal prices continued to fall.

XI-2

Wages. Hiring difficulties in several manufacturing and service industries continued to lead to upward wage pressures for specialized skills and some low-wage workers.

Manufacturing. Sales of manufactured products rebounded slightly, and manufacturers were generally more optimistic about the sales outlook than reported in the last beige book. Demand was up for most electronics and a few construction-related products, such as fabricated metals and brick, while equipment sales to the energy industry continued to be very strong. Contacts in the electronics industry seemed relieved to report a seasonal increase in orders for semiconductors, computers and telecommunications equipment, and were more optimistic about the outlook for the industry than they were earlier this year. Electronics inventories were reported to be in better shape than earlier this year, although several contacts said inventories were still too large. Apparel manufacturers said sales were up over the past month, partly as a result of increased sales to Mexico. Oil machinery companies continue to report extremely strong demand. Demand for corrugated boxes and packaging supplies increased seasonally, as expected, and most contacts said inventories were appropriate. However, packaging contacts were less optimistic than earlier this year about the outlook for sales. Petrochemical producers are being hurt by higher prices for natural gas liquids and oil. Demand remains strong, but not strong enough to pass through all of the increased feedstock costs. Refiners have seen profit margins improve with higher gasoline and heating oil prices, but regard margins to not be high on a historical basis. Food and cement manufacturers said there was no change in demand for their product. Lumber sales were down slightly, although contacts were more optimistic about the outlook than six weeks ago. Scrap metal sales continued to fall.

Retail Sales. Retailers reported "good" sales growth over the past six weeks. Most contacts were more optimistic about holiday sales, despite some nervousness about the shorter holiday season. Inventories were in line with expectations, and some contacts suggested there will be less pressure to discount prices than last year. Sales were reported to be particularly strong for better men's and

XI-3

women's apparel. Consumer electronics retailers reported sluggish personal computer sales, although demand for peripheral equipment remained strong. Auto dealers reported continued sluggish sales. Dealers do not expect sales growth to improve for the next few months "with nothing to make the market snap given that interest rates are pretty low already."

Financial Services. Lending activity was weaker than six weeks ago, led by a drop in demand for commercial and industrial loans, and residential real estate loans in San Antonio and Houston. Refinancings continued to decline. Consumer auto loan demand was up in Dallas. Contacts remain cautious about the outlook for lending, although some respondents are looking for a pickup in residential real estate loan demand over the next year.

Construction and Real Estate. Contacts said demand for construction and real estate was up since the last beige book. Home sales rebounded after a drop in September and early October. Apartment construction continued to increase at a steady pace, and the construction of extended-stay hotels was strong in Dallas. Contacts said the office market continued to improve, especially in Dallas, where a lack of vacant space in the suburban market continues to drive rents upward.

Energy. High prices continued to boost demand for oil services, and contacts continued to report that there is no excess capacity of equipment or services available anywhere on a global basis. Contacts reported a shortage of land rigs, and said the availability figures for land rigs are greatly overstated "if you want a decent piece of equipment." One contact said that their backlogs are so long that they are not taking any new orders.

Agriculture. Continued rainfall improved agricultural conditions. Harvest was being completed across the District and most producers were reporting good yields for soybeans, peanuts and corn. Frost damaged some cotton and late planted sorghum but facilitated harvesting and provided needed relief from bollworms and armyworms. Livestock conditions were rated good overall. Supplemental feeding picked up as cooler temperatures arrived, but hay supplies are good.

TWELFTH DISTRICT — SAN FRANCISCO

Summary

Reports from Beige Book contacts portray a moderate pace of economic growth in most Twelfth District states in recent months, with an expectation of picking up to a faster underlying growth trend. Retailers generally reported moderate growth in overall sales through October and an intended inventory build-up that reflects expectations of a strong holiday sales season. Producers of services noted further growth of demand, and reports on District manufacturing production and orders generally were favorable. Residential real estate market activity reportedly was strong in most District states, with relatively high levels of residential construction continuing in the fastest-growing states.

Business Sentiment

District respondents generally expect continued favorable national economic performance, with regional economic growth outpacing the national rate. Most respondents expect U.S. real GDP growth next year to continue at about the long-run average pace of around 2 percent, leaving the national unemployment rate near the current relatively low level. Inflation is expected to pick up only slightly. More than three-quarters of respondents expect their local economies to do better than the nation. This optimism is apparent in California and in the fast-growing states of the Intermountain area and the Pacific Northwest.

Retail Trade and Services

Most District states reported moderate growth in overall retail sales in recent months. In many cases inventories have been built up in anticipation of a strong Christmas selling season, and

current stocks generally were reported to be under control. The sanguine view of current inventory levels also was held by motor vehicle dealers, even though October truck sales reportedly dropped back, and auto sales remained flat.

Among respondents from service-producing industries, providers of telecommunications services continue to report a strong pickup in demand. Demand for other utility services is increasing. Tourism activity in the District also continued to be strong. Hotel occupancy rates reportedly increased in several areas, including Utah, where the ski business is benefitting from an early snowfall.

Manufacturing

Reports on District manufacturing activity generally were favorable. The positive spillovers from the ramp-up in production of commercial aircraft at Boeing reportedly are extending to the aircraft parts industry and fueling demand for some types of primary and fabricated metals, electrical machinery, and components. However, except for titanium, material supplies have not been a problem thus far; other metal products such as aluminum appear to be in abundant supply. Lumber producers in the Pacific Northwest reported a recent pickup in demand for their products, owing both to increased building activity and increased market share, given reduced Canadian supply. Demand for pulp and paper products also reportedly improved recently. Elsewhere, in the machine tool industry, slowing domestic orders are being offset by a slight pickup in foreign orders.

Agriculture and Resource Related Industries

District agricultural conditions were good through the fall. In the Pacific Northwest, bountiful harvests of most crops were reported. California's Central Valley vegetable growers

were able to produce enough to take advantage of high prices, which have been elevated by short crops elsewhere in the nation. Cotton yields in California also generally were high, with the exception of some southern areas that experienced hot weather. A large drop in feedgrain prices increased the demand for feeder cattle.

Real Estate and Construction

Residential real estate market activity reportedly was strong in most District states, although activity slowed in some of the strongest markets and picked up in other areas. Respondents from the Intermountain states of Arizona, Idaho, and Utah reported that the recent rapid pace of sales and of price gains for existing homes was not sustained in recent months. Within California, notable increases in home prices generally were confined to the San Francisco Bay Area. In contrast, housing sales and prices reportedly picked up in Washington and Oregon, owing to strengthening economic conditions, population inflows, and increasingly binding constraints on the availability of urban land.

Relatively high levels of residential construction appear to have continued in the fast-growing states where home prices have been appreciating rapidly, but home building remained weak in California. In the fast-growing Intermountain and Pacific Northwest states, non-residential construction also was reported at high levels this fall. The overall strength in demand for construction labor in such areas is exerting significant pressure on wages, given also the tightness in the broader labor market.

Financial Institutions

District financial institutions generally report continued favorable conditions. Loan demand increased in most areas, including Southern California, where overall economic

conditions have been weaker than elsewhere. However, even in the fastest-growing areas, banks report some concern about deteriorating consumer credit quality, as measured by increasing delinquencies and bankruptcies.