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Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

April 1997

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

MAY 1997

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SUMMARYⁱ

District economies generally continued to expand at a moderate rate through March and April. Most districts indicated that retail sales were above year-ago levels. Light vehicle sales tapered off from very high March levels in most of the nation. The housing and construction industries remained strong, with commercial construction outpacing residential in most districts. Manufacturers were operating at very high levels, with new orders increasing significantly in some areas. Labor markets remained tight in most districts, with a few new reports of upward wage pressures. Virtually all districts were reporting relatively flat retail prices, while reports were mixed for raw and intermediate goods. Most districts reported a pickup in business lending activity, with some reporting fierce competition and credit standards being lowered to attract business loans. At the same time, demand was mixed for mortgage and consumer loans and a few districts were reporting tightened credit card standards. Agricultural conditions were mixed, with some reports noting above-average crop progress and improving livestock conditions. But adverse weather delayed or damaged crops in other districts and caused heavy livestock death losses and flood losses in the Minneapolis district. Energy prices continued to drop in most regions, but production in the industry remained strong.

Consumer Spending

Most districts reported a moderate year-over-year increase in retail sales. Only the Boston and Richmond districts, which noted strong growth, and the New York district, which

ⁱPrepared at the Federal Reserve Bank of Chicago and based on information collected before April 28, 1997. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

reported considerable slowing, differed markedly from this pattern. Apparel sales were strong in the Boston, New York, Cleveland, Atlanta, and Chicago districts, while Philadelphia was the lone district reporting weak apparel sales. The Boston and New York districts reported particular strength in sales of building materials. The demand for electronics improved slightly in the Chicago district but remained soft there and in most other regions. Appliance sales were also soft in the Boston, New York, and Atlanta districts but were improving in the Cleveland district. Inclement weather hindered the sale of some spring merchandise (sporting goods, lawn and garden equipment, etc.) in the Chicago district. Overall retail inventories were in line with sales and/or merchants' expectations in most districts. Strength in tourism spending was noted in the Boston, Richmond, and Atlanta districts and most of the San Francisco district, where the strengthening dollar was cited as contributing to a decline in Hawaii's tourist trade. The Minneapolis district indicated that severe weather was adversely affecting their tourist trade.

April vehicle sales softened in the Philadelphia, Cleveland, Chicago, and Minneapolis districts after strong results in March. Automobile dealers in the Kansas City district reported a slight increase in sales, with notable strength in light trucks and sport utility vehicles. The Dallas district reported an auto sales rebound in April, but sales for the month still fell short of last year's results. The Chicago district reported that scattered strikes were limiting the availability of some of the automakers' most popular models.

Housing/construction

New home construction was reportedly strong in most of the nation, but down slightly from last year's very high levels. The Chicago and Kansas City districts experienced a pickup in new home sales from earlier in the year but did not reach last year's levels. The Cleveland and New York districts described new housing activity as improved. The New York district also

reported that remodeling activity was booming. Particular strength was noted in multifamily construction by the Chicago, St. Louis, and Dallas districts, while the Atlanta district reported softening in this segment of the market. Existing home sales were mixed across much of the nation. The Richmond district said the market for existing homes was “brisk,” while the Minneapolis district reported softening from “exceptional strength” earlier in the year.

Commercial real estate remained very strong through most of the nation. Declining office vacancy rates and increasing rents were reported by most districts. Leasing activity was described as “torrid” by the New York district. The Richmond, Atlanta, St. Louis, and Minneapolis districts all reported an increase in office construction. The Atlanta, Chicago, Dallas, and San Francisco districts were reporting strong industrial activity.

Manufacturing

Overall manufacturing activity increased across much of the nation despite scattered auto-related strikes which were affecting several districts. Industrial activity reportedly increased in all but the New York and Dallas districts. The Dallas district noted weakness in paper, box, and most construction-related products. The Boston district reported “solid” year-over-year gains due in part to strength in biotech instruments and computer networking equipment as well as a recovery in the aerospace industry. Expansion in the aerospace industry also contributed to manufacturing strength in the Atlanta, St. Louis, and San Francisco districts. Strength in the steel industry was cited in the Cleveland and Chicago district reports. Demand for capital equipment was strong in the Cleveland and Richmond districts. Apparel and garment production strengthened in the San Francisco, Dallas, and Richmond districts but fell off in the Atlanta and St. Louis districts. Strong sales boosted light vehicle production earlier in the year, but recent strikes against automakers and their suppliers idled plants in several regions, most

notably the Chicago and St. Louis districts. However, contacts in the Chicago district had yet to feel any significant impact from these strikes.

Surveys indicated broad-based gains in new orders in the Cleveland, Chicago, and Philadelphia districts, while new orders in the Richmond district “surged.” Contacts in the St. Louis district indicated that demand for their manufactured goods had increased and a contact in the Minneapolis district reported “We have plenty of new orders.” One-quarter of the Boston district’s manufacturing contacts indicated that they were facing capacity constraints, but slight declines in order backlogs and delivery times in the Philadelphia district suggested that “demand was not pushing against capacity limits.”

Banking/finance

Overall lending activity was decidedly split, with most of the strength on the business side and most of the weakness on the consumer side. The Philadelphia, Chicago, St. Louis, Kansas City, and Dallas districts all reported increases in business lending. The Cleveland and Richmond districts noted that business lending was mixed. None of the twelve districts reported an outright decrease in business lending during this reporting period. Fierce competition for business customers was cited in the Cleveland, Richmond, Chicago, and San Francisco reports. Credit standards for commercial loans were reportedly lowered in the Chicago and San Francisco districts and more favorable loan arrangements were noted in the Richmond district.

On the consumer side, only the Kansas City district was reporting an increase in overall lending activity, albeit slightly. Most districts were indicating flat or decreasing activity. Mortgage lending had declined noticeably in the Cleveland, Richmond, and St. Louis districts and had become “spotty” in the Chicago district. The New York and Kansas City districts were reporting increased mortgage lending activity. Consumer credit standards were being tightened

in the Philadelphia, Chicago, and Dallas districts. Two districts, New York and Cleveland, reported slight improvement in consumer delinquency rates while a contact in the Chicago district noted an increase in store credit card delinquencies following a period of flattening earlier in the year. However, overall bank asset quality and/or loan quality was reported to be good in the Cleveland, Atlanta, and Chicago districts.

Labor Markets, Wages, and Prices

Tight labor markets and shortages of qualified help persisted throughout much of the nation in March and April. Two districts, New York and Chicago, reported further tightening, while the St. Louis district noted fewer reports of tight labor markets. Labor shortages existed in each district, with computer-related and other highly skilled workers cited most often.

Employment growth lagged the nation in the Cleveland and Chicago districts, though the latter noted an increase in manufacturing employment recently after trending downward in 1996.

Despite tight labor markets, upward wage pressures remained generally subdued. The notable exceptions are those areas and occupations where serious shortages existed. In addition, the Minneapolis district noted new reports of upward pressure on manufacturing wages. Increased turnover rates were reported by the Boston, Cleveland, and Atlanta districts. Increased use of bonuses to attract workers was reported in the Dallas and Cleveland districts.

Prices for raw materials were reportedly flat to down in the Boston, New York, Cleveland, Chicago, and Minneapolis districts. In addition, declining energy prices were noted in the Chicago, Minneapolis, Kansas City, and Dallas districts. Contacts in the Philadelphia, St. Louis, and Kansas City districts reported increases in some raw material prices and only the St. Louis district cited an increase in energy prices. Costs of construction materials--especially lumber, drywall, and concrete--increased sharply in the Richmond district. Significant resistance

to price increases persisted in most districts. Consequently, most districts reported that prices at the retail level remained subdued. There were exceptions, however. Continued strong demand enabled many retailers in the Boston district to increase their prices and contacts in the Chicago district reported a reduction in the use of discounting to move inventory.

Agriculture and Natural Resources

The agricultural reports were mixed. Above-average progress in crop plantings was indicated in reports from the San Francisco, Richmond, and Chicago districts, while the St. Louis, Kansas City, and Minneapolis districts noted delays in plantings and/or crop development. A late freeze damaged fruits and vegetables in the St. Louis and Richmond districts and wheat in the Kansas City district.

An early April blizzard added to the high winter death losses of cattle in the Dakotas. By contrast, improved market conditions ended the culling of most cattle herds in the Kansas City district and started a rebuilding of herds in the Dallas district. Hog numbers were reported to be growing considerably in some areas of the Richmond district, while the Chicago district noted that tougher environmental restrictions on larger producers were delaying the expected expansion.

Energy industry activity increased in the Minneapolis, Kansas City, and Dallas districts despite continued price decreases. Refinery profit margins were increasing for the Dallas district's energy industry since crude prices were falling more rapidly than product prices, and demand was reportedly strong enough to support an additional 10 to 20 drilling rigs in the Gulf of Mexico.

FIRST DISTRICT - BOSTON

Solid economic growth continues in the First District. Retail contacts report sales in line with expectations, with the majority citing strong growth. Most respondents in the manufacturing sector are also seeing revenues rise well. While retailers say they are raising prices somewhat, supplier prices are flat to down with only a few exceptions. Wages are rising slowly, except for selected high tech occupations. Office rents are increasing, notably in the Boston area, as demand for commercial real estate outstrips fairly level supplies. Insurance company revenues rose in the first quarter, led by annuities and mutual funds.

Retail

Most contacts in the retail sector recorded fairly strong sales growth during the first quarter. The sales increases are said to be in line with expectations. Inventories are in line with sales. On the high end, both the building materials and tourism sectors report very strong growth. Building materials contacts cite 30 to 40 percent sales increases over the year; growth is expected to moderate over the next two quarters but still continue at a rapid pace. Office-related products and both discount and upper-end apparel report strong sales growth. In contrast, appliances and computers are seeing weak sales, but this too is said to be in line with expectations. Appliance retailers expect their sales to decline in the rest of the year, citing ongoing industry consolidation. A discount retail contact, which has been down in the last six months, is improving, with current sales growth slightly positive.

Unlike earlier in the year, many retailers now say increased demand is allowing them to raise prices, with corresponding improvements in profit margins. Most supplier prices are reported to be either holding steady or declining. The exception is lumber, for which prices are moving up.

Employment seems to be picking up in all sectors and employee turnover is increasing. With the exception of building materials stores, wages are reported to be holding steady. The building materials sector, with rapidly growing head counts, sees wage growth of 4 percent. Capital expansions also appear to be picking up, with only the discount retail sector lacking significant expansion plans. In summary, retailers see a strong economy and expect solid growth to continue during the next six months.

Manufacturing

Two-thirds of First District manufacturing contacts report that recent business is solidly above year-earlier levels. Most of the remaining respondents indicate that sales are flat or up a little. One-quarter of the manufacturing contacts are facing capacity constraints. Strong gains are reported for biotech instruments, telecommunications and computer networking equipment, and some categories of electric utility equipment. Aircraft equipment sales are reported to be recovering, while home appliance, automotive equipment, and machine markets are softening after several strong years.

Most contacts report that materials costs are flat or down somewhat. Some contacts have avoided metals price increases by entering into long-term contracts. Selling prices also remain largely flat, although higher costs for hardwoods are putting upward pressure on furniture prices. Automakers reportedly are forcing lower prices and profitability onto equipment and parts manufacturers. Price trends for computer products vary considerably, depending on shifting demand for different technologies.

Most respondents report very little net change in their head counts over the past year. For firms seeking to hire workers, labor availability is generally viewed as adequate, except for skilled technical positions. Company-wide wage and salary growth is mostly in the range of 2½ to 5 percent, but engineers and software specialists are receiving increases that are considerably higher. A Connecticut-based manufacturer notes that market conditions no longer allow the company to freeze pay.

Manufacturers generally anticipate reasonably good macroeconomic growth with little inflationary pressure for the remainder of 1997. Some express concerns about exchange rates or specific product lines.

Commercial Real Estate

The commercial real estate market in New England continues to improve. The Greater Boston area is doing especially well, with vacancy rates declining and rents increasing in all sectors. While demand from new and expanding firms continues growing, the supply remains constant. In particular, the office market is said to be very tight right now, with no large office space and very little developable land available, both downtown and in the suburbs. Even with increases in office rents, excess demand for space is forcing some firms to move farther out of the city. The retail and apartment markets are very strong as well. According to one contact, Boston has fully recovered from the downturn of the early 1990s.

Conditions in the rest of New England are mixed. Rhode Island is doing well and seems to be on its way to recovery. New Hampshire, Vermont, and Maine have seen minor changes. Parts of Connecticut are very strong, mainly southwestern Connecticut (as a result of New York's strong economy). However, the Hartford, New Bedford (MA), and Worcester (MA) areas are still doing poorly, with high vacancy rates in most sectors.

Nonbank Financial Services

Respondents at insurance companies report revenue increases ranging from 3 to 20 percent in the first quarter of 1997. Revenues are increasing the most in annuities and mutual funds and the least in traditional life insurance business. Employment at responding insurance companies was flat or down in the first quarter and is expected to continue on a downward trend because of downsizing and consolidations.

SECOND DISTRICT--NEW YORK

Economic growth in the Second District has slowed from the brisk pace noted in the last report, while prices continue to be stable. Consumer spending appears to have slowed considerably since the last report, with retailers reporting that sales were generally below plan in March and April; some of this weakness was attributed to unseasonably cold weather. Commercial real estate markets continued to tighten throughout the New York City area in the first quarter, though rental rates have risen only modestly. Existing home sales slowed in February and March; however, new construction activity continued to edge up, and contacts in New Jersey report a boom in home remodeling activity. Regional purchasing managers' reports suggest some weakening in the manufacturing sector and generally stable prices in March. Finally, local banks report a pickup in loan demand and some improvement in delinquency rates.

Consumer Spending

Major retailers in the region report that business has slowed since the last report, with a number of contacts indicating that sales were below plan in March and especially April. Compared to a year ago, same-store sales ranged from a 1 percent decline to a 5 percent gain for the two months combined. (Monthly sales patterns were distorted because Easter Sunday fell in late March rather than April.) Moreover, most of the retailers surveyed mentioned that sales slowed noticeably in mid- to late-April; some of the recent softness was attributed to unseasonably cool weather. Apparel generally continued to out-perform other categories. Most contacts note ongoing weakness in home appliances and electronics. However, a large retailer of building materials cites robust sales.

While most retailers continue to report that inventories are on plan, a few now say stocks are on the high side. Both retail selling prices and merchandise costs remain steady. There has been no evident increase in retail wage pressures, although one contact noted increased difficulty in finding

qualified managers.

Construction & Real Estate

New York State's existing home market slowed in the first quarter, with unit sales up just 1 percent from a year earlier and prices up 3 percent. Builders report that single-family construction activity is still at a low level but improving in New Jersey and down-state New York. Moreover, remodeling activity (major additions and alterations to existing homes) is reportedly booming in New Jersey; one housing industry specialist estimates that total spending on remodeling is on the verge of surpassing new construction spending in the state. This trend, as well as New York City's wave of commercial-to-residential conversions, is attributed to an old housing stock, a dearth of available land, and regulatory constraints on construction. As a result, traditional measures, such as housing starts and permits, may be understating residential construction activity in the District.

Commercial real estate markets strengthened further in the first quarter. Office vacancy rates continued to fall across most of the New York City area. Midtown Manhattan's rate fell from 13.2 percent in late January to 12.3 percent (a 10-year low) at the end of March, with leasing activity described as "torrid". Downtown's rate fell from 22.4 percent to 21.1 percent. Similarly, vacancy rates in Westchester and Fairfield counties and northern New Jersey fell to new cyclical lows in the first quarter, while Long Island's rate held steady at a 9-year low. Over the past year, rental rates on Class A properties have increased by 5 percent or less throughout the New York City metropolitan area.

Other Business Activity

Regional purchasing managers reports suggest some slowing in the region's manufacturing sector. Only Rochester purchasers report improved business conditions in March. Manufacturing firms in upstate New York report an increase in labor turnover and upward pressure on wages. However, across the District, purchasing managers report that prices were generally stable.

The region's labor markets generally tightened in early 1997, despite recent announced cutbacks by large employers, such as Bausch and Lomb and AT&T. In the first quarter, unemployment insurance claims were down about 10 percent from a year ago in both New Jersey and New York State. New Jersey's unemployment rate fell to a cyclical low of 5.5 percent in March, after hovering above 6 percent throughout 1996. However, New York's rate held steady at 6.3 percent, the same as last year's average. Despite fairly strong job growth, New York City's unemployment rate climbed to a three-year high of 9.7 percent in March, due to a flood of new labor force entrants (the city's labor force has expanded at a 3 percent annual pace since mid-1995).

Financial Developments

According to a survey of senior loan officers at small and medium sized banks in the Second District, loan demand picked up in March and April. Increases were concentrated in the residential mortgage segment, with demand up at nearly 43 percent of the banks surveyed. Demand for consumer loans and nonresidential mortgages also increased at a substantial share of banks. On the supply side, most banks report no change in credit standards, while a smaller proportion than in the last survey report increased willingness to lend.

Interest rates increased on all categories of loans—especially for residential mortgages, where over 80 percent of banks surveyed reported higher rates. Average deposit rates also rose. Delinquency rates on consumer loans and residential mortgages, which had been on the rise, declined slightly in the latest survey; delinquency rates continued to abate for commercial and industrial loans and held steady for nonresidential mortgages.

THIRD DISTRICT - PHILADELPHIA

Business conditions in the Third District were mixed in April. Manufacturing activity edged up slightly during the month. Retail sales slipped from March, although the year-to-year comparison was positive. Auto sales also fell in April and dropped below the year-ago level as well. Bankers generally reported steady loan volumes in April; a rise in business lending offset a decline in consumer lending.

Demand for technical workers remained strong throughout the District, and employers said salaries for these jobs were rising strongly. In contrast, overall employment appeared to be growing moderately, and firms in a wide range of industries expect wage increases to average around 3 percent this year.

Business firms in the District report that prices are mainly steady, although manufacturers have noted some recent increases in the cost of inputs. Retailers have seen some scattered increases in costs but do not report a general rise in wholesale prices. Contacts at businesses of all kinds said they were continuing to give their attention to cost-containment measures in all phases of their firms' operations.

MANUFACTURING

Third District manufacturing activity edged up slightly in April in nearly all of the region's major goods-producing sectors. The most notable gains were posted by makers of electronic products and electrical machinery; furniture makers and food processors said demand for their products was just even with that of the previous month. Overall, around one-third of the

District's manufacturers reported rising orders and shipments, and one-half said their business was steady. Slight declines in order backlogs and delivery times at area plants as well as steady working hours indicated that demand was not pushing against capacity limits.

Looking ahead, the consensus among the District's manufacturers is that activity will continue to move up during the next two quarters. Nearly half of the firms surveyed for this report forecast increased shipments and new orders, while only one in ten anticipate decreases. On balance, firms expect to meet the rising demand without any significant increase in order backlogs, although they plan to add employees and increase working hours.

RETAIL

Third District retailers said the pace of sales in April eased from March but exceeded April of last year. Chain stores--department stores, discounters, and large specialty retailers--generally had better results in April than small independent stores. According to reports from merchants in the region, chain store sales in current dollars have recently been running nearly 5 percent above a year ago, while sales for small stores have been up only a few percent. Merchants suggested several factors to account for the March to April slowing: an early Easter that shifted April buying into March; recently raised interest rates and lowered credit limits on credit cards; and a lack of new products to spark consumer enthusiasm. In particular, retailers said sales of spring apparel have not met their plans. Despite the unanticipated slowdown in sales, most merchants said their inventories were lean, and some even reported stockouts of certain items.

Auto dealers throughout the District noted a slowdown in sales in April compared with March and with April of last year. Demand for domestic autos was generally reported to have

dropped significantly below expectations, and light truck sales were also down, although not by as much. Sales of imports have fared relatively better, although sales of some makes were weaker than dealers had anticipated. In response to slowing sales, some domestic manufacturers have instituted or expanded rebate programs.

FINANCE

Loan volume at major Third District banks has been steady in April as a decline in consumer loans was offset by an increase in commercial and industrial lending. Bankers contacted for this report said demand for consumer lending has eased somewhat recently despite active marketing efforts; however, they also noted that they have been putting somewhat more restrictive credit standards in place for new credit card customers.

The increase in business lending posted in April came largely from new borrowing by existing customers, especially middle market companies, according to bank lending officers. Bankers said the borrowing has been by firms in a wide variety of industries that are purchasing new equipment and making improvements in their facilities in order to cut costs and expand their operations.

LABOR DEMAND

Employers in the Third District generally are adding modestly to their work forces, although demand for technical workers continues to be strong. Service industry firms report they are in need of qualified computer personnel, especially programmers and software developers. Demand is particularly strong at telecommunications companies. Manufacturers are seeking machinists and workers trained in automated production processes. Educational institutions in the region are establishing training programs in cooperation with large employers or employer

groups to meet the need for workers with these skills. Salaries for these jobs were rising sharply according to firms in the region, but for wages in general, most companies contacted said they anticipate the increase during 1997 will be around 3 percent.

PRICES

Although most business firms contacted for this report said prices for both the goods they purchase and the products they produce or sell have been steady, there has been an increase in recent months in the number of manufacturing firms that have experienced increases in input costs. Retailers gave mixed reports on the costs of the goods they sell: apparel costs appear to be steady, but merchants have seen increases for some other products. Business contacts in all industries said they were continuing to emphasize cost-containment and cost-cutting efforts in all phases of their operations. Cost-reduction measures cited included concentrating orders with lower cost suppliers, streamlining purchasing procedures, reducing inventories, reconfiguring manufacturing processes to shorten production time, installing more efficient equipment, and establishing more integrated links in sales and production plans between supplier firms and their customers.

FOURTH DISTRICT - CLEVELAND

General Business Conditions

Business conditions in the District remain strong overall, consumer and business optimism appears high, and business expansion plans are above last year's increase.

Construction activity has strengthened noticeably in the past few months. New housing and commercial construction are both much improved, despite generally poor weather.

Employment is growing, but at a somewhat subdued pace relative to the national average. Presumably, extremely low rates of unemployment--often less than 4 percent--in many areas of the Fourth District are creating staffing problems. In a sample of the District's smaller employers, contacts cited increased training costs and high worker turnover associated with tight labor markets. One contact reported offering bonuses to employees who bring in new employees.

Demand has risen for workers of all skill levels, particularly those with technical backgrounds, and wage growth is higher than this time last year. Respondents also report an increased frequency of job vacancies. Several temporary employment agencies, specializing in high-skill areas such as law, engineering, and healthcare, have recently emerged.

Manufacturing

Industrial activity is expanding at a good pace across most sectors. Capital goods producers report further increases from an already high level of production. Steel producers indicate large output gains in the past month or two. Manufacturing activity is

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generally expected to remain quite strong through the spring, as new orders are reported to have risen and the backlog is up from the beginning of the year. Only export orders have diminished since the last District report. While some rise in manufacturers' inventories has been seen, stocks are still moderate relative to the current level of sales.

Industrial price increases vary by commodity, but in the aggregate, prices appear unchanged. Significant price increases are seen for a variety of metals, particularly steel. Still, manufacturers report difficulty making price increases stick for finished goods.

Retailing

District retail conditions continue to be mixed. Furniture and consumer electronics sales are weak, while computers and appliances are stronger than earlier in the year. Women's and men's apparel are selling especially well. District retailers report inventories are "on plan," and retail expansions were noted in Columbus, Dayton, and Pittsburgh.

Although still a relatively small share of the total retail market, on-line retailers' sales (retail sales through the Internet) have been growing at an incredible rate, with the approximate number of these "virtual" retailers doubling in the past year. Industry sources indicate that exports account for about one-third of on-line retail business. Virtual retailers are not exempt from labor shortages; respondents report difficulty finding customer-oriented workers with an understanding of new technology.

Auto Dealers

Dealers indicate that larger factory incentives have only partially offset secondary lenders' tightened standards which have recently driven up the cost of credit. Still,

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District auto sales were strong in March and early April, although some softening was noted toward the end of the reporting period. Most dealers reported new car sales near, or substantially above, last year's high levels, but used car sales continue to languish.

Inventory levels are reported to be at, or perhaps slightly above, desired levels, with the usual shortages of a few popular models. While most dealers expressed optimism about the remainder of the spring sales season, a few indicated a desire to keep inventories "cautiously lean." Dealers expressed little concern over the impact of recent supplier strikes on product availability.

Banking and Finance

Lending activity in the District varied. Commercial loan demand ranges from strong to disappointing. Smaller banks have noted a drop-off in commercial loan demand, while commercial credit growth at larger institutions has been moderate or better. Consumer loan extensions are lower, with only minor exceptions. Mortgage refinancing has deteriorated with the rise in interest rates.

The majority of District bankers contacted report a slight drop in the number of delinquencies since the first of the year. However, several also noted a continued rise in personal bankruptcies. Commercial loan quality is high and predicted to remain strong as long as the economy maintains its current course. Despite tight margins and rigorous competition, District banks have reported that first quarter profits were, on average, slightly above their expectations.

FIFTH DISTRICT-RICHMOND

Overview: The Fifth District economy expanded at a faster rate in March and early April, with growth balanced across nearly all sectors. Led by a surge in shipments, manufacturing activity bounced back, posting its strongest showing since October. Retail sales were robust, and the service sector grew more rapidly. Activity in commercial real estate and tourism strengthened, while drier weather enabled farmers to resume tillage and planting. Bank lending slowed, and realtors and homebuilders provided conflicting reports about activity in the housing sector. Labor markets remained tight, with continuing wage pressures and shortages of qualified workers. Prices continued to increase only slightly, with the notable exception of a sharp rise in building materials prices.

Retail Trade: District retailers indicated that the pace of activity accelerated in March and April from our last report. Sales revenues jumped sharply; one Virginia contact remarked that “[strong] consumer confidence is a contributing factor.” Retail employment expanded slightly faster than in prior months, and wage growth was remarkably strong. Sales of big-ticket items improved considerably, as did shopper traffic. District retailers noted that their prices had changed little in recent weeks. They were markedly more optimistic about demand for their products during the next six months.

Services: In recent weeks, the service sector posted its strongest monthly gain in three years. Results from a survey of service producers indicated that revenues grew more quickly, led by strength in the wholesale trade and health services sectors. Growth in employment and wages eased, however. Contacts indicated that their prices rose more slowly in recent weeks. Looking forward, they expected steady demand for their services over the next six months.

Manufacturing: Manufacturing activity rebounded sharply since our last report. According to a survey of District manufacturers, shipments rose at the fastest monthly rate in several years. Apparel, furniture, paper, and industrial equipment firms displayed particular vigor, snapping back from several months of decline. New orders and backlogs surged, leading manufacturers to draw down their inventories. Despite widespread complaints of labor shortages, employment rose somewhat. Vendors’ lead times edged up, and manufacturers

stated that their suppliers were letting quality slip. Contacts reported that finished goods prices changed little, and that raw materials prices grew more slowly. Respondents' six-month outlook was for lower finished goods prices and somewhat higher raw materials prices.

Tourism: Tourist activity benefited from unusually mild weather in March and early April. Unseasonably warm temperatures and an early Easter boosted tourism at the beaches. A Baltimore, Md., hotelier attributed the increase in his bookings to a stronger economy along with the favorable weather. Contacts expected better-than-normal business and slight price increases during the next six months.

Port Activity: Representatives at District ports indicated that both import and export levels were higher in March than in February. Contacts expected imports to decrease and exports to remain about the same during the next six months.

Temporary Employment: Placement agents said that demand for temporary help intensified in March and early April. One contact in northern Virginia noted that her clients' requests for workers were "up 25 to 30 percent" so far in April. The demand for employees with computer skills remained particularly pronounced. Sources noted that labor markets continued to be extremely tight. Wages inched up, and most agencies reported that finding qualified workers remained a problem.

Finance: District banks indicated that lending activity edged lower since our last report. Bankers reported that mortgage loan demand weakened in recent weeks as interest rates moved higher, although they noted that consumer lending was little changed. On the commercial side, the demand for loans was mixed. Some contacts characterized lending activity as strong; a Virginia banker said there was "more [commercial loan] activity than I've seen in several years." However, other lenders suggested that higher interest rates and greater concern over stock market volatility had tempered loan demand in their areas. Competition for commercial loans remained stiff, and one banker described loan terms as "absolutely insane."

Residential Real Estate: Realtors and homebuilders provided contrasting views of housing activity over the last six weeks. Real estate agents characterized activity as brisk, noting that the recent uptick in mortgage rates had bolstered customer traffic and home sales. One realtor remarked, "everybody is taking the plunge." Homebuilders' perspectives of the sector

were not as upbeat. Conversations with builders indicated that customer interest was down sharply, and that housing starts and permits were off slightly. A Virginia contractor said that the recent rise in mortgage rates had created nervousness in the market. Construction costs increased; subcontractor wages rose, and materials prices--especially lumber, concrete, and drywall-- jumped considerably.

Commercial Real Estate: Commercial real estate activity continued to escalate in recent weeks. Office, retail, and industrial leasing remained vigorous in most jurisdictions, and accelerated further in the District of Columbia and North Carolina. Commercial vacancy rates continued to fall, moving into single digits in some large metropolitan areas. Commercial rents rose in all jurisdictions; one northern Virginia broker commented that rents seemed to be rising "a dollar a [square] foot a month" in his area. The availability of prime office space tightened even further, and sources throughout the District again reported shortages. Most respondents reported an increase in new construction. A Charlotte, N.C., contact expressed some concern about the sector's prospect there, noting that construction was currently outpacing absorption in his area. On the other hand, a branch director from Raleigh, N.C., relayed a commercial developer's comment that there was "little risk of overbuilding, such as in the 1980s."

State Revenues: State revenues increased at a slower pace in March. General fund collections grew more slowly, except in Virginia, where they increased at a faster rate. Withholding tax collections experienced steady growth, although our contact in South Carolina noted weakness there despite moderate job growth.

Agriculture: Drier weather in recent weeks allowed District farmers to catch up on spring tillage and planting. Planting progress was reported as being at or above the five-year average for most crops. In South Carolina tobacco transplanting was "a couple of weeks ahead" of schedule and corn planting neared completion. However, strong, drying winds and cooler-than-normal temperatures hampered crop development in some areas, and a late cold snap caused minor damage to fruit and vegetable crops. Cattle herds remained in generally good condition and required little supplemental feeding. In North Carolina, hog producers held record inventories--up 13 percent from a year ago--and planned to increase farrowings considerably in coming months.

SIXTH DISTRICT - ATLANTA

Summary: The Southeastern economy continues to expand moderately in early spring, according to most contacts. Factory activity has been mixed, with increasing payrolls, despite declines in orders reported by several manufacturing firms in the region. The outlook is positive in the tourism and hospitality sectors as the expansion continues in the travel industry. Most retail merchants report that April sales were above last year's, with levels meeting expectations. Bankers note moderating loan demand. Single-family home sales and construction were generally flat, but commercial construction markets are displaying continued strength. Despite difficulties in hiring and retaining qualified workers and some reports of higher input costs, wage and price pressures remain relatively subdued.

Consumer Spending: Most District merchants reported April sales above those of a year ago, with levels meeting expectations. Generally, they indicate inventory accumulations are currently on target, and the outlook for future sales of most product lines is upbeat. High consumer confidence has helped to keep sales strong, according to some contacts. Retailers note especially strong current sales of spring apparel, shoes, and cosmetics. Household goods sales, however, have apparently weakened recently. Product prices are expected to remain about unchanged over the next few months, according to most contacts.

Construction: Real estate contacts report that single-family home sales and construction were flat in the District on a year-over-year basis in March and early April. Inventories of unsold homes remain adequate for expected sales, while expectations for second quarter building are mixed. They are slightly more positive for the third quarter of this year.

Contacts report that commercial real estate markets remain strong. They believe that new industrial and office development continues because of lower vacancy and higher rental rates. The

multifamily sector is said to be past its peak, but there are some reports of slight increases in the number of projects.

Manufacturing: Reports of factory activity have been varied. Although new orders and the factory workweek declined for a number of firms, an increasing number of companies also added to payrolls. Aerospace firms continue to gain new contracts and expand. Shipyards along the Gulf Coast reportedly can't find skilled workers to keep pace with their recent business boom. New orders are increasing for some building product producers, particularly some carpet producers, and electrical equipment manufacturers are adding to employment rolls. Some producers of bedding, sheets, and towels report good business activity, but weakness continues in much of the apparel segment. The factory workweek is increasing for auto parts producers. In contrast, furniture manufacturers contacted are cutting back production because of weak orders. A paper company spokesman reports it is being forced to lower prices to boost sluggish sales, and a producer of paper-making machinery also notes slowing activity.

Tourism and Business Travel: Expansion continues in the tourism and hospitality sectors and the outlook is positive. Industry representatives say that tourism is especially strong in south Florida and the trend is expected to continue. Double-digit passenger growth rates posted by Orlando International Airport and high hotel occupancies in the Orlando area are evidence of continuing strength of central Florida's theme parks. Attraction attendance and spending are up from a year ago in Tennessee; finding quality employees is reportedly the number one problem for Nashville's hospitality industry. Tourism, conventions, and gaming continue to thrive along the Mississippi Gulf Coast, and casino revenues from some gambling boats in Louisiana have grown at double-digit rates from a year ago. Although overall airline passenger traffic declined moderately in Atlanta from a year ago, international traffic increased.

Financial: Most banking contacts report that consumer and commercial loan demands have flattened in recent weeks. Reports on the volume of mortgage and automobile financing were mixed. Most bankers said loan quality had been steady.

Wages and Prices: Despite continuing reports of labor shortages, wage pressures, as well as prices, are said generally to be in check. Locating and hiring qualified workers continues to be a problem, according to most contacts. Closure of apparel plants has increased the labor supply in parts of the District, and part-time and “retired” employees are filling some shortages. One contact notes that more employees are leaving one job to do the same job at another company for higher pay, and that companies are increasingly paying more for experienced employees. Although some contacts report higher input prices, they also mention an inability to pass increases on to the end user, reflecting in large part competitive pressures from both domestic and foreign markets.

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SEVENTH DISTRICT-CHICAGO

Summary. The Seventh District economy expanded at a moderate rate in March and April, regaining some of the lost momentum noted in our last report. Retail sales remained above year-ago levels but results varied by retailer and product line. Residential housing activity picked up slightly from a weather-related slump early this year and business construction remained strong. Manufacturing activity increased from earlier in the year despite several auto plants being idled by strikes. Business lending remained strong while reports on consumer credit were mixed. The District's labor markets remained very tight with continued shortages, but there was no new evidence of upward wage pressures. Cool, wet weather conditions slowed early field work on farms while lagging inventories and growing export prospects buoyed hog prices.

Consumer spending. Retail sales in March and April generally continued to run above a year ago, although results varied by retailer and product line. National chains described regional sales results as being about at or somewhat below those in other parts of the country. In Michigan, shopping mall traffic was described as fairly brisk, and a survey of retailers showed March sales continuing to gain momentum from a temporary slump at the start of the year. Continued strength in apparel sales was reported by most retailers in the District, while abnormal weather was cited as temporarily slowing sales of Spring merchandise (sporting goods, lawn and garden equipment, etc.) One large regional chain noted that sales of big-ticket items, such as furniture, had increased from earlier this year. A large national retailer reported some improvement in sales of consumer electronics but added that this segment remained in a down cycle. Most contacts noted that inventories were in very good shape, resulting in less need for sales promotions and discounting. Sales at District auto dealers were reported to be steady for most models but robust for light trucks and luxury automobiles in the first quarter. One analyst, however, reported that a survey of dealers indicated slowing sales in April.

Housing/construction. Overall construction activity remained robust in the District with housing rebounding slightly from a deeper than seasonal dip earlier in the year. Residential construction remained strong in each of the District states with the exception of Iowa, where a builders' association noted that building activity picked up in March and April after a period when price discounting was used heavily to work off unintended inventory. Builders in some areas suggested that strength on the residential side was concentrated in multifamily construction and

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building permit reports show substantial year-over-year increases in multifamily units in both February and March. Single-family activity had become spotty through much of the District with many contacts pointing to softening in the higher end of the market. Sales of existing homes were reported to be off slightly from last year's levels but, again, still strong. One large realtor, noting that his company's sales were down about 10% from this time last year, stated "I certainly don't see my salespeople sitting around crying in their beers." Builders and suppliers reported that the commercial segment of the market, most notably suburban industrial construction, remained very strong in April.

Manufacturing. Manufacturing activity picked up moderately during March and early April, displaying few adverse effects yet from scattered auto-related strikes. Production and new order components of purchasing managers' surveys from across the District increased from already expansionary levels in February. One District steel producer reported that the company's order books were full through the second quarter. A large producer of earth-moving equipment reported an increase in orders, and a major producer of agricultural equipment noted increasing orders from abroad, particularly eastern Europe. Strong sales through the first quarter boosted production at auto makers and suppliers through much of the District. Strikes are idling plants which make some of the most popular (and profitable) models, but most contacts had yet to feel any discernible effects from these strikes. There were few reports of new upward price pressures. One major steel producer reported that the costs of some raw materials and energy were declining slightly, and while steel prices were up slightly, they are expected to fall due to new capacity coming onstream in the next few months and a surge in imported steel.

Banking. Overall lending activity remained strong in March and April, but the strength was not even across markets, and it was unclear if total activity was picking up or leveling off. Most bankers contacted indicated that business lending continued to be the major source of strength. One rural contact pointed out an increased demand for loans from light industry in rural areas while noting difficulty in attracting deposits to fund their loan demand. A contact at a large Indiana bank reported that business lending remained strong but noted that an uptick in interest rates had some of their customers rethinking large capital and real estate investments. Competition remained intense and many banks lowered credit standards to make business loans. On the consumer side, reports from financial contacts were mixed. Mortgage lending became spotty in the District, with some banks reporting increased lending activity and others reporting a decrease. One large issuer of credit cards reported that charge-offs hit a new high in the first quarter. This company, which had been

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very aggressive, was tightening credit standards slightly and cutting back on their marketing campaign considerably. Another less aggressive issuer reported that their charge-off rates were lower than a year ago and planned no changes in their promotional activities. One large retailer noted that store credit card delinquencies, which had flattened out earlier this year, increased sharply in March. Overall asset quality at District banks, however, was reported to be good.

Labor markets. Labor markets across the Seventh District remained very tight in April amid signs of further tightening. This was most evident in Indiana, where the unemployment rate had fallen nearly one full percentage point since the beginning of the year. Overall employment growth in District states still lagged the nation but many contacts regard this as a labor supply problem. A national survey of hiring plans showed that employers in the Midwest had the highest hiring expectations of any region in the country. Manufacturing employment, which had been trending downward since December 1995, appeared to have changed course early this year and more recent evidence suggested that job growth may have accelerated in April. Employment components of purchasing managers' surveys from across the District were significantly higher than February and temporary help agencies reported increased orders from the industrial sector in April. An analyst in the Chicago area noted that hiring in trade industries, both wholesale and retail, had leveled off recently while a survey of Michigan retailers suggested continued increases in their payrolls. Information technology workers were most often cited as being in very short supply. There were no new reports of upward pressure on wages, and strikes in the auto industry center around non-wage issues.

Agriculture. Farmers in District states expect to plant more corn and soybean acreage this year but fewer acres will be devoted to vegetables. Cool temperatures and wet conditions delayed early field work again this year, especially in Iowa. Improved weather conditions since mid-April permitted several areas to catch-up the last two weeks. About 18 % of the intended corn acreage in District states had been planted as of April 26, slightly above the average pace of the past five years. The number of hogs on farms continued to be below year-ago levels and producer surveys point to only modest expansion through this summer. Growing environmental restrictions geared mostly toward very large producers appeared to be undercutting the expansion that most analysts were expecting. Simultaneously, foreign demand for U.S. pork has increased significantly with the recent outbreak of a disease that has halted pork shipments out of Taiwan.

EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy continues to grow at a moderate pace. Most contacts are still reporting sales and employment growth; however, some have noticed a moderate slowing in growth. Although labor markets remain tight in much of the District, there are fewer reports of tightness. Moderate upward pressure on raw materials prices persists, but firms are generally still not able to pass these increases along to consumers. Damage estimates from storms and flooding earlier this spring are still preliminary. Residential real estate markets around the District experienced a slight pickup in February, but levels of new construction are below last year's levels. Loans outstanding at large District banks have declined slightly since mid-February. Abnormally cool temperatures have hindered the planting and emergence of spring crops in many areas.

Manufacturing and Other Business Activity

Although most contacts continue to report steady growth in sales and employment, some have noted a moderate slowing of growth at their firms and in their regions. Fewer reports of tight labor markets have been received than previously; construction and clerical workers, including bank tellers and loan processors, are reported to be in short supply. A strike at a Chrysler engine plant in Detroit has idled about 2,500 workers at the pickup truck plant in St. Louis. It is unclear when the workers will be recalled.

A maker of small power tools saw first-quarter sales jump 10 percent because of increased demand from a major retailer. Many regional suppliers to the auto industry are also experiencing increases in demand, leading to additional hiring. Several suppliers are building plants near the new Toyota plant in Indiana. At the same time, a firm that supplies paint to automotive manufacturers

reports a slight weakening in demand, which is apparently tied to the production of models that have not been selling well. McDonnell Douglas got the go-ahead to start production on a new Navy contract for fighter jets, securing about 7,000 St. Louis jobs for the next 20 years. A large chemical firm reports that, while first-quarter sales volumes dropped slightly in the United States, business picked up strongly in Europe. A national construction and engineering design firm reports that orders through the first quarter are on a record pace; it sees little letup in the near term.

The apparel industry, however, continues to close plants and lay off workers, generally because of fierce competition from offshore firms. Two Arkansas shirt factories are closing, eliminating about 365 jobs. Another 100 jobs at a stitching factory are being eliminated. A flannel shirt factory in Indiana is also laying off half of its work force—about 160 people.

Wages and Prices

Reports from several medium-to-large District firms provide little evidence of an acceleration in the rate of wage increases. Contacts expect wages to increase between 3 and 3½ percent this year. At the same time, reports of persistent upward pressure on other input prices remain, although these pressures have been largely offset by productivity gains or other cost saving measures. One contact in the paper industry notes that wood prices are up about 7 percent over last year. Although contacts in the chemical and furniture industries report current raw materials prices as stable, one in the trucking industry notes higher fuel expenses. Some contacts expect steel prices to increase later this year. Most contacts, however, still cannot pass these increases along to consumers because of competition.

Flood and Tornado Damage

Preliminary estimates of storm damage from the flooding of the Ohio and Mississippi rivers

and the tornadoes that ripped through Arkansas, Tennessee and Kentucky in early March are sketchy. To date, FEMA has paid slightly more than \$21 million on about a quarter of the claims filed. Kentucky residents have received about 75 percent of the total payout. About 6,000 claims for unemployment insurance because of storm damage have been received by the affected states.

Real Estate and Construction

Residential real estate markets saw a mild pickup in February. Nine of the District's 12 metropolitan areas had increases in the number of permits issued in February; however, permit levels in most areas lag their year-ago levels. Construction in many areas along the Ohio and Mississippi rivers has been delayed because of flooding. Commercial real estate agents continue to report generally strong markets. In particular, there is increased activity in multi-family housing construction, especially apartment complexes. Office development is also strong in many areas.

Banking and Finance

Total loans outstanding at six large District banks declined 0.6 percent between mid-February and mid-April compared with a 2 percent increase in the same period one year ago. Declines in real estate loans other than home equity lines of credit were responsible for the drop. Real estate loans declined 2.6 percent between mid-February and mid-April, while business loans rose 0.6 percent and consumer loans showed no growth.

Agriculture and Natural Resources

Early reports from farmers suggest that abnormally cool temperatures have delayed spring planting activities and the emergence of crops already planted in many areas. An early spring freeze has damaged some fruit orchards, as well as some wheat fields in low-lying areas. Certain low-lying fields remain inundated with water because of the flooding that afflicted many parts of the District.

NINTH DISTRICT--MINNEAPOLIS

Despite winter's last blast in a severe blizzard April 4-6 and record flooding in the Red River Valley, moderate economic growth continues in the Ninth District. Construction is rolling into yet another strong season. Output remains strong in most natural resource sectors, despite some decline in oil drilling. Manufacturers report good sales and note few input bottlenecks or other impediments to production. Retailers describe generally good sales. After a somewhat spotty winter recreation season, tourism businesses are generally optimistic about the 1997 summer season. Employment levels remain high, and there are some indications of wage pressures in manufacturing. But there are few reports of price increases for goods and services, and fuel prices have dropped slightly.

On the negative side, this historic winter's last blasts caused additional deaths in Dakota beef herds and unusually high mortality among the new calf crop. Flooding is causing unprecedented damage in the Red River Valley on the North Dakota-Minnesota border and will cause some delay in planting crops.

Construction and real estate

"We have plenty of work lined up," reports a Sioux Falls, S.D. home builder. "It isn't slowing down any," echoes a counterpart from Eau Claire, Wis. Such comments are typical in a sector that continues as an important source of economic growth. Publicly let heavy construction in Minnesota and the Dakotas is strong for the third consecutive year.

Construction employment levels in Minnesota running 7.5 percent above the same months in 1996 and 14 percent above 1995 are yet further evidence of strength in this sector. In Butte, Mont., work will soon start on a \$470 million silicon plant that will employ nearly 1,000 construction workers in 1997-1998. Repair and replacement of flood-damaged buildings and infrastructure in eastern North Dakota and northwestern Minnesota will place great demand on available construction resources once waters recede.

Markets for existing housing have softened somewhat in Minnesota after exceptional strength early in the year. Similar easing is reported in Montana. But commercial property vacancy rates continue to decline in Minneapolis-St. Paul, and one financial services firm has announced plans to build facilities for 1,300 employees in a St. Paul suburb.

Natural resource industries

Drilling rig counts in North Dakota are down compared to year-earlier levels, but oil production is up about 10 percent, reflecting the contribution of new wells drilled in 1996. At least two rigs are drilling in northwestern South Dakota, into the same formations as the new North Dakota wells, and Montana drilling for oil and gas is well above year-ago levels. Iron mines are running at capacity. Plants producing oriented-strand board, a plywood substitute, still face depressed prices and are catching up on maintenance. But allowable cuttings on federal land in Montana are expected to rise in 1997, leading to higher employment and output in that state's timber industry. Paper producers report somewhat improved sales after the slump last year, but complain of stiff import competition from Scandinavia, attributed in part to strengthening of the U.S. dollar.

Manufacturing

"Business is pretty good," says an owner of a Minnesota metal stamping firm. "We have plenty of orders," reports a manager of a South Dakota light manufacturer. A Minnesota building products manufacturer says, "Business is just excellent, all the plants are running flat out." On the whole, reports from manufacturers outline a sector facing good business conditions with few problems on the horizon. Many plan investment in new plant or equipment this year. Most describe inventories as normal. Particularly good sales and earnings reports from many small, publicly traded firms producing electronic, medical, electro-chemical and other high-tech products are another indication of strength.

Agriculture

"It was really rough," says a South Dakota rancher describing an intense blizzard across parts of the Dakotas and Minnesota on April 4-6 that added insult to injury for beef producers. North Dakota officials estimate losses over the entire winter equal to 10 percent of the stock cow herd, and higher than usual mortality among newborn calves. South Dakota officials estimated losses at 7 percent before this blizzard and describe losses as substantial. The proportions of the herds described in "poor" or "very poor" condition by state agricultural statistics services are the highest in four years.

Cold weather across the region and flooding in some areas has kept most farmers out of the field, and extension officials predict somewhat late planting in many areas. Soil temperatures remain below normal levels. However, by April 28, small grain planting was

underway in several areas, and corn reportedly was planted in a few. It is too early to determine what effects any delays may have on output. Some agronomists note that planting was late in many areas of the region in 1996, but yields were above average.

Consumer spending and tourism

“Traffic has been pretty good since it warmed up,” says a South Dakota mall manager. Other retailers also report generally good sales but continue to describe a business environment with sharp competition and very careful price comparisons by consumers.

Vehicle sales vary by region. “It has been pretty slow the last few weeks, but it had been good in March,” reports one South Dakota auto dealers’ spokesman citing weather uncertainty as damping farmers’ willingness to buy. Reports from North Dakota stress interruptions by storms and floods. In urban areas of Minnesota, one dealer described sales as “pretty good, but not spectacular.” But sales were hot in Billings, Mont., where 21 percent more vehicles were sold in January and February than a year earlier. Sales since then are described as “very good.”

After a mixed winter season, with some activities disrupted by intense cold, tourism officials and operators are generally optimistic about the 1997 summer season. Montana officials note a substantial increase in inquiries compared to a year ago. A Minnesota resort owner says, “We will have a good summer.” Most sources describe great competition and a few worry that the stronger dollar will make foreign vacations relatively more attractive.

Employment, wages and prices

Unemployment rates remain low and below national levels in all areas except Montana and Michigan’s Upper Peninsula. Employers continue to list difficulty in securing qualified workers as an important problem, particularly in western Wisconsin, eastern South Dakota and the Minneapolis-St. Paul metropolitan area. There is some evidence of wage pressures; hourly earnings in manufacturing in Minneapolis-St. Paul in February were 4.5 percent above year-earlier levels. Employers also report sharp increases in compensation for programmers and other computer professionals.

On the price side, there are few reports of price increases for raw materials, intermediate goods or at the consumer level. Gasoline and diesel fuel prices began to drop in April, but remain slightly above spring 1996 levels.

TENTH DISTRICT - KANSAS CITY

Overview. The district economy continued to grow moderately last month.

Manufacturing activity remained strong, retail sales edged up, and energy activity improved slightly. Construction activity generally held steady. In the farm economy, a recent cold snap caused some damage to the winter wheat crop, but the district cattle industry continued to improve. Labor markets remained tight in much of the district, yet reports of wage increases in the past month were scattered. Prices generally held stable at the retail level while increasing for some materials used in manufacturing and construction.

Retail sales. Retailers report sales edged up last month and were slightly higher than a year ago. Total sales are expected to increase moderately in the coming months. Retailers have been expanding their inventories but report they are generally satisfied with current stocks and plan no major changes in the next several months. Automobile dealers report sales were up slightly last month, and sales are expected to increase in coming months. Sales of light trucks and sport utility vehicles remained particularly strong. Most dealers have been holding inventories steady but expect to expand stocks somewhat in the next several months to meet increased sales.

Manufacturing. Manufacturers continued to operate at moderately high levels of capacity last month. Manufacturing materials were generally available, with lead times unchanged. Most manufacturers have been holding inventories steady but plan to trim inventories somewhat in coming months because stocks exceed desired levels.

Housing. Builders report housing starts generally held steady last month but were down from a year ago. Builders expect construction activity to improve in the coming months due

primarily to seasonal factors. Sales of new homes edged up last month and were down slightly from a year ago. Most building materials were readily available, and delivery times were normal. Mortgage lenders say demand increased last month.

Banking. Bankers report that during the past month loans changed little while deposits increased, reducing loan-deposit ratios somewhat. Commercial and industrial loans, residential construction loans, and commercial real estate loans edged up, while other loan categories were flat. Increases in demand deposits and money market deposit accounts contributed to the rise in deposits.

All respondent banks increased their prime lending rates last month and about half expect to raise rates further in the near term. Most banks also increased their consumer lending rates last month but plan no further changes in the near future. Lending standards were unchanged.

Energy. District energy activity improved slightly last month and remained stronger than a year ago. Oil and gas prices fell for the third month in a row, reversing earlier increases. Despite the price declines, the district rig count edged up 2 percent to a level 25 percent higher than a year ago.

Agriculture. The district's winter wheat crop was damaged recently by sub-freezing temperatures in key growing areas. Overall, the crop's condition dropped from excellent to average. A general pattern of cool wet weather has delayed spring fieldwork in much of the district. The delay is not critical yet, however, and without further delays most spring crops should be planted well within normal deadlines.

The district's mix of major crops may change slightly this spring due to the new farm bill. Under the new government farm program, farmers are free to plant what they want. Bankers

indicate that the recent surge in soybean prices is encouraging many district farmers to switch some acres from corn to soybeans. In drier areas of the district, farmers aim to plant more milo and sunflowers than they have in the past.

Conditions in the district cattle industry continue to improve. Most producers indicate that the herd reduction phase of the current cattle cycle may be over. In fact, ranchers plan to retain more breeding stock this year to build their herds in preparation for stronger livestock profits in the years ahead. The increased demand for breeding stock has nearly doubled the price of a cow and her newborn calf from a year ago.

Wages and prices. Labor markets remained tight last month in much of the district, yet there were only scattered reports of wage hikes. Some manufacturers report skilled workers were in short supply, and some firms say entry-level workers were hard to find. Computer specialists were also in short supply in some markets. Only a few companies, however, indicate they raised wages recently to attract or retain workers. Prices held steady at the retail level but increased for some manufacturing and construction materials. Retailers expect no major price changes in coming months.

ELEVENTH DISTRICT—DALLAS

Eleventh District economic activity continued to expand at a moderate pace in March and April. Many industries reported trouble finding workers, which pushed up wages and prices at some companies. Demand continued to be strong for all contacts in business services, and construction activity was slightly higher. Energy industry activity remained strong despite lower crude and product prices. Manufacturing orders were softer than reported in January and February, however, and retailers said sales growth was slower since the last beige book. Demand remained flat for financial services, except for an increase in business loans. Agricultural conditions have improved overall.

Prices. All contacts in the service sector said they have been hiring and having difficulty finding qualified workers, which has led to higher wages and fees. The tight labor market extends to all types of service workers. For example, in Dallas, a pizza delivery service is offering a \$200 signing bonus and “big discounts on pizzas” for qualified drivers and managers. The oil industry also continued to report a tight labor market. Most manufacturers did not report labor shortages or wage pressures. Of notable exception were computer-related manufacturers, who said that labor shortages had led to rising wages in the Dallas area, but they have been unable to pass this cost increase on to selling prices. Higher labor costs from past and future increases in the minimum wage are a concern to apparel manufacturers and some retailers because stiff competition continues to prevent them from passing cost increases along to selling prices. Retailers reported that a very competitive market is keeping selling prices unchanged, despite some hope earlier in the year that they would be able to increase some prices. Excess capacity and a drop in demand led to lower selling prices for all types of paper products. Most construction-related manufacturers reported no change in selling prices, despite previous plans for prices increases in the spring. Selling prices were higher for some lumber and wood products, however. A few construction-related manufacturers said their inventories are excessive, particularly for cement. Warm winter weather eased inventory problems at refineries and reduced fears of heating oil shortages.

Gasoline inventories are low, but contacts say supplies should be adequate for the summer months, and prices are expected to be slightly lower than last year. Even though their costs have been falling, producers of a number of plastic products tried to raise prices in March, but the price increases were effective only for some polyethylene plastics.

Manufacturing. Demand fell for several manufactured products, including paper, boxes, and most construction-related products. Telecommunications manufacturers reported that seasonal factors were reducing sales. Construction-related manufacturers said that sales have begun to rebound recently, after dropping off between 10-25 percent in March and early April. Much of the reduced demand for construction-related materials was attributed to rainy weather, and contacts remain optimistic that sales over the coming year will be “good.” Sales of computers continued to increase at the same pace, and demand for computer-related fabricated metal was rising rapidly. Semiconductor contacts report that inventories are “about the right size.” The semiconductor industry continued to show signs of rebounding, and there were reports of increases in orders, but a large semiconductor manufacturer had implemented an absolute spending freeze until May 15. Apparel manufacturers reported strong demand for their products during the first quarter. Sales of lumber to commercial builders was up. Producers of bulk commodity petrochemicals such as ethylene and propylene continue to experience extremely strong demand.

Business Services. Demand continued to increase for most business services, including temporary staffing, accounting, consulting and legal services. Legal firms reported that real estate projects, such as residential and strip center development, were keeping them busy. Also strong were activities related to new company formation and rig deals in Houston. Demand for temporary employees at all skill levels remained high. In the Austin and Dallas/Fort Worth areas, demand was strong from computer manufacturers and their suppliers.

Retail Sales. Retailers reported softer sales growth in March and April compared to January and February. One retailer was “surprised how much it slowed down” while another said “sales were a little

slower but not bad.” One contact said several companies reported increased trouble with collections. Auto sales in the Dallas area rebounded from declines in the winter, but are down about 10 percent from a year ago.

Financial Services. Demand for financial services remained flat over the last six weeks, except for an increase in business loans. Most contacts reported no change in credit standards, with the exception of tighter credit standards for consumer loans. Some bankers, and others as well, have expressed increasing concern that credit standards have not been tight enough.

Construction and Real Estate. Contacts reported that construction activity rose modestly over the past six weeks, despite a slow down in single-family home construction. Apartment construction picked up, although some contacts noted that the apartment market may be becoming over built in certain parts of the state—particularly in Austin. Hotel construction was strong, and office construction is beginning to increase. Speculative construction of warehouses continued despite warnings by several contacts that supply may be out pacing demand. Tight vacancies in many suburban office and apartment markets continue to boost rental rates. Home building continues to remain below last year’s levels, and one builder said that higher interest rates have had “a noticeable effect on buyer traffic.”

Energy. Despite lower crude and product prices, energy industry activity remains brisk, driven by new technology and high cash flows for producers over the past 18 months. Contacts said that drilling capacity in the Gulf remains essentially at 100 percent, and demand exists for 10 to 20 additional rigs, helping to push up rental rates for off shore rigs. Oil service and machinery companies also continue to report very strong activity levels. Downstream prospects have brightened because refinery margins improved as product prices fell more slowly than crude prices.

Agriculture. Agricultural conditions have improved overall. Heavy rains have delayed planting but provided much needed moisture for crops and livestock. Ranchers reported that rain has helped relieve the pressure to sell off cattle, and herds are now being rebuilt.

TWELFTH DISTRICT—SAN FRANCISCO

Summary

Reports from Beige Book contacts indicate continued strong growth in most Twelfth District states through the first quarter of 1997, with the exceptions being Alaska and Hawaii. District retailers reported healthy first quarter sales, and service providers, particularly those in the tourism sector, noted continued rapid expansion. Manufacturing activity in the District remained strong, propelled by a booming aerospace industry and steady expansion in high-technology equipment manufacturing. Increased demand for residential and non-residential real estate continued to boost construction activity in much of the District. Respondents' generally favorable views of the economy were tempered by reports of material and labor shortages, particularly in construction and high-technology manufacturing. Tight labor markets reportedly have prompted some businesses to sponsor job fairs to attract potential employees.

Business Sentiment

District respondents expect a more moderate, but still solid, performance in the national economy, with regional growth outpacing the national rate. About one-half of the respondents expect U.S. GDP growth to return to its long-run average pace, leaving the national unemployment rate near its current level. An increasing number of respondents (56 percent) expect inflation to edge up in coming quarters. Nearly all respondents expect economic growth in their region to outpace growth in the national economy over the next year. Respondents are most optimistic about the strength of business investment, housing starts, and foreign trade in their areas. The only exceptions to this optimism were respondents in Alaska and Hawaii, who expect below average growth for their states.

Retail Trade and Services

Retailers from most District states reported a healthy first quarter, strengthened by sales growth in February and March. Reports were strongest in California and the Intermountain states, where improvements in food, pharmaceuticals, and clothing sales were noted. Retailers reported lean, although generally sufficient, inventory levels and no problems obtaining merchandise from suppliers. Respondents noted that stiff competition continues to hold down prices.

Service industry respondents in most District states continued to report solid growth. Providers of telecommunication services reported steady demand for their products, although equipment delivery delays are beginning to constrain activity. Respondents from California, Nevada, Oregon, and Utah reported brisk demand for tourism-related services, keeping hotel occupancy rates high, particularly in San Diego, Las Vegas, and Portland. In the Salt Lake City area the winter "room crunch" eased slightly with the close of the region's ski season, but conventions and other tourism activity continue to keep occupancy rates above year-ago levels. In contrast, contacts in Hawaii reported a drop in tourism activity as international tourist traffic declined in response to a strengthening dollar.

Manufacturing

Reports on District manufacturing were highly favorable. In the Pacific Northwest, the aerospace and high-technology sectors continued to expand, spurring growth in other areas of the District. Southern California in particular has benefited, collecting a large share of Boeing's sub-contracts for its long depressed aerospace industry. Boeing's rapid ramp-up in production reportedly has created shortages of aircraft electrical components and machinery; all other

materials are reportedly in good supply. Accelerating growth also was reported in the food processing and forest products sectors in the Pacific Northwest and in the garment industry in Southern California. Respondents throughout the District noted short supplies of highly skilled workers. In the Puget sound and San Jose areas some high-technology firms have resorted to job fairs to recruit new workers.

Agriculture and Resource-related Industries

Reports on District agriculture conditions were generally favorable. Spring planting is well underway in the District and early reports indicate good crop development. Reports on the District's cattle industry also were positive. Lower grain prices and higher calf prices have created favorable conditions for District ranchers.

Real Estate and Construction

Residential real estate activity remained healthy in most District states. In the Pacific Northwest, continued strong demand for single family homes reportedly has driven up prices and created shortages of construction materials and labor in the area. In the Intermountain states, residential construction activity slowed in recent months, but remains at a high level. In California, respondents from the San Francisco Bay Area noted strong new and existing home sales; respondents from Southern California reported meaningful improvement in sales of existing homes.

Commercial construction activity was strong in most parts of the District. In the Pacific Northwest commercial vacancy rates continued to drop, fueling an already booming nonresidential construction market. Industrial construction activity in the Pacific Northwest also increased as manufacturing firms continued to demand new facilities. In Utah, infrastructure

projects such as the rebuilding of Interstate 15 and the development of a light rail system are augmenting the fast-growing commercial construction sector. In California, respondents report rapid declines in commercial vacancy rates in the San Francisco Bay Area and rental prices are increasing. However, speculative commercial construction activity remains weak. In Los Angeles, commercial vacancy rates also are declining, although they remain above those for the state as a whole.

Financial Institutions

District financial institutions continued to report good loan demand and generally favorable credit conditions. Financing remains readily available for qualified businesses and fierce competition is forcing lenders to offer very favorable financing terms. Respondents from the banking industry noted increased difficulty in getting and maintaining deposits in recent months, a circumstance they attribute to the strong equities market.