Despite an apparent sluggishness, respondents to the April 1989 Houston Beige Book survey anticipate improved business conditions later in the year. The survey, conducted by the Houston Branch of the Federal Reserve Bank of Dallas, indicates that the economic growth of the Houston area continues to improve but at a slower rate of increase.

This slowing of growth has created some pessimistic attitudes among area business leaders, but most remain cautiously optimistic regarding future market conditions. These attitudes are expressed in the mixed responses to the April Beige Book survey.

According to the survey, retail sales were lower than normal in March. Much of this slump is believed to have been caused by unseasonably cool weather. Retailers believe sales will pick up when the warm weather resumes.

In addition, retailers are very concerned about the prospect of an increased minimum wage. They would like to see a six-month training period with a lower wage as an option.

Although the rising crude oil prices have not yet triggered an increase in oil field activities that would prompt higher sales of equipment and services, respondents believe the high crude prices eventually will lead to increased drilling and a rise in the demand for oil field equipment and services.

Some industries continue to press plant capacities and are embarking on capital expansions that will further boost the Houston area economy, according to the survey. The construction of new petrochemical plants have been widely publicized and continues according to plan.

Yet, the April Beige Book survey indicates other industries are beginning to plan for substantial new capacity as well. These include the petroleum refining industry and paper industry. These actions represent a positive testimony of support for further expansion of the Houston area economy.

Inflation is receiving cautious interest by the survey respondents but not concern. Most respondents reported expectations of moderate inflation in the next few months. With the exception of the petroleum prices, most businesses are marking up prices 5 to 6 percent. This price increase is being matched with a wage increase of less than 5 percent in most cases due to current labor contract terms. This offers an opportunity for growth and expansion for the economy.

Overall, continued cautious growth is expected despite some setbacks experienced in March. Respondents in most industries expect demand and sales to continue to rise moderately or at least remain comparable to last year's levels. Those industries not experiencing growth still remain optimistic.

The following is a brief overview of the April 1989 Houston Beige Book survey results expressing what Houston area business leaders believe is in store for the near future.
Retail Sales

Cooler than normal weather was a major factor in slowing March retail sales in the Houston area according to the survey. Few shoppers were willing to buy summer merchandise with the weather so cool. As a result, inventories edged higher than desired. Merchants have initiated more aggressive selling programs to combat the sluggish sales, but those efforts had not yet translated into renewed sales strength in the first two weeks of April.

Retailers are also concerned about the prospect of an increase in the minimum wage. They would like to see a six-month training period with a lower wage as an option. The expected economic effect of the wage increase, say respondents, is the thinning of a number of "behind the scenes" people.

Automotive Sales

Aggressive promotions are expected to boost new car sales in the second quarter, according to respondents. This boost is expected to continue to keep pace with the continued growth in the Houston economy. In support of this expectation, unit sales in the first three months of the year matched the year-earlier performance, and inventory levels of new cars are characterized as moderate.

Oil Field Equipment

Substantially higher crude oil prices have yet to stimulate a pick-up in oil field equipment manufacturing. Competition for available sales remains keen. Respondents are looking for a recovery later in the year when drilling is expected to accelerate. Since inventory levels are presently termed "about right" by respondents, shortages could quickly develop should drilling activity surge later this year.

Petroleum Refining

Refinery output continues to press production capacity, and sales gains are essentially flat in the petroleum refining industry, according to respondents. The industry is also experiencing a boost in profits due to the $18 to $20 per barrel crude prices. These factors create an environment prime for capital expansion.

Higher product demand is spurring considerable interest in investment in new refining capacity along the Texas Gulf Coast. Several refiners have projects and studies under way that could add nearly $1 billion in investment in new distillation capacity.

On another note, survey respondents believe the current increase in gasoline prices is more the result of a seasonal rise than a reaction to the Valdez oil spill in Alaska.

Petrochemicals Industry

Production of petrochemicals continues at full capacity. Volumes are up modestly from a year ago. These positive signs are tempered by the slowing of the rise in petrochemical prices. This moderation reflects a dampening of the sharp price increases of the basic building block chemicals used by the industry. Since these building block chemicals are no longer increasing in cost rapidly, industry prices are no longer rising sharply.

Demand for petrochemicals is keeping pace with production, and inventories are being maintained within manageable levels. As a result, construction of new petrochemical plants continues.

Paper and Paperboard Industries

Demand for paper products continues to grow, although at a slowing pace. As a result, respondents reported mixed views of current conditions. Sales trends were characterized as flat or continuing at last year's pace.

Those respondents that point to strong sales growth indicate that this year's performance will depend on expanding foreign demands, the value of the United States dollar and the level of interest rates.

Despite the cautious outlook for the paper industry by respondents, plans are being studies for substantial new capacity indicating an optimistic outlook for the future. ❖