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Summary of Commentary on _____

Current Economic Conditions

by **Federal Reserve District**

April 2001

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS

BY FEDERAL RESERVE DISTRICT

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SUMMARY¹

Almost all districts report a slow pace of economic activity in March and early April. Retail sales were weak in March, but strengthened in April. Still, retailers in most districts are expecting only small gains, at best, in upcoming months. Vehicle sales have been mixed, with demand for new SUVs, trucks and luxury cars generally down. Industrial activity has continued to weaken, with orders and production having fallen in many districts. Labor market tightness has eased in almost every district. Upward wage pressures have generally abated, only to be replaced with energy costs that have risen sharply. Home sales and new construction have remained steady or been picking up in almost all districts. Commercial construction has been more uneven across districts. Lower mortgage rates have spurred a resurgence of refinancing, which has helped bolster loan growth recently. Many districts note, however, that credit standards are tighter now than previously. The winter wheat crop is generally in good condition, while some delays in spring plantings and the development of other crops have been noted in the Midwest and Plains. The energy sector continues to strengthen.

Consumer Spending

Almost all districts report that retail sales in March were flat-to-down from a year earlier, but showed improvement in early April. The Boston, Kansas City and San Francisco districts note that sales have been below expectations, while the Atlanta, Chicago and St. Louis districts report that sales have either met or exceeded expectations. In the Boston, Kansas City, Philadelphia and St. Louis districts, big-ticket items—such as jewelry, appliances and electronics—have been slow movers; in the Chicago district, however, household appliances and electronics have reportedly been strong sellers. The Chicago and New York districts note that sales of seasonal merchandise and apparel have been weak, while the same merchandise

¹ Prepared at the Federal Reserve Bank of St. Louis and based on information collected before April 23, 2001. This document summarized comments received from business and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

has been moving quite well in the Cleveland and Philadelphia districts. The Minneapolis district notes an uptick in demand for used computers lately. Most districts report that retailers' inventories are currently at desired levels; in parts of the Kansas City district and in Idaho, however, some retailers' inventories are a bit high. Retailers in the Cleveland district have been successful at reducing their excess inventories through large markdowns. Almost all districts report that retailers are expecting only mild sales growth, if any, in the upcoming months, with contacts in the Dallas district, for example, noting that they have lowered their sales expectations for rest of the year.

Vehicle sales are mixed around the country. The Cleveland, Kansas City, New York and Philadelphia districts report that sales are up, while the Chicago, Dallas, Richmond and St. Louis districts report that they are down. Almost across the board, however, districts note that higher gas prices appear to have reduced demand for new SUVs, luxury vehicles and trucks. On the other hand, sales of lower-priced and used vehicles have been relatively strong, especially in the Dallas and St. Louis districts and in the Buffalo region. Dealers in the Richmond district have been trimming their inventories as sales have softened; some dealers in the Dallas and St. Louis districts also report high inventories, especially of SUVs and trucks. In other districts, current vehicle inventories are at desired levels.

Manufacturing and Other Business Activity

Manufacturing activity continues to weaken across districts, with demand having fallen in most industries. Orders and production are down in the Atlanta, Boston, Chicago, Cleveland, Minneapolis, Philadelphia, Richmond and San Francisco districts. Some districts report that excess inventories, which had been growing since the beginning of the year, are starting to fall because of production cuts. In the Boston and San Francisco districts, though, manufacturers still express concerns about excess inventories. The Philadelphia district's manufacturing

sector is a mixed bag, with orders down in April, but shipments steady. Furniture sales have continued to decline in the Richmond and St. Louis districts because of slack demand.

The high-tech and telecommunications industries are experiencing a pronounced slowdown. Activity has eased in the Atlanta, Chicago, Dallas, Philadelphia, San Francisco and St. Louis districts, where new orders or sales of computer-related equipment have dropped. Sales of such equipment in the Boston district, however, are up moderately. The Atlanta and Dallas districts still have excess inventories of telecommunications equipment.

There were some scattered areas of improvement, however. In New York, for example, conditions varied across the state: the New York City and Buffalo areas have been bright spots, with manufacturers experiencing an increase in production; the Rochester area reports further weakening in business conditions. Tourism and hospitality demand have remained moderately strong in the Atlanta and Richmond districts, where the Easter holiday and spring breaks during March and April were a boon for these industries. Business travel, however, is reportedly down, with travel-industry contacts in the Philadelphia district reporting some slowing recently.

Manufacturing contacts in the Cleveland and Philadelphia districts are optimistic, expecting orders and demand to pick up by this summer. Boston, Chicago and St. Louis district contacts are uncertain to pessimistic, with expectations of slower sales in the coming months. Businesses in most districts expect a slowing in capital spending this year; in the Philadelphia district, however, the number of firms planning reductions is offset by an equal number planning increases in capital spending budgets.

Labor Markets

While some districts still mention that labor markets are tight, almost all note that this tightness has been easing, especially in the manufacturing sector. Most contacts in the Atlanta, Boston, Chicago, Kansas City and St. Louis districts have commented that filling vacancies has become easier. The Dallas district, however, reports that quality workers are still elusive, and

construction workers are still in short supply in the Chicago and Kansas City districts. Skilled workers in the energy sector are also in short supply in the Kansas City district. The New York district notes a continuing backlog of demand for workers in the financial services industry, though this has become less pronounced in recent weeks. Employment in the St. Louis district's retail trade and service sectors are picking up because of strengthening demand.

Wages and Prices

Nearly all districts report that energy costs are up sharply, hitting historic highs in some areas. Boston district contacts, however, note that energy concerns have waned somewhat since the last report. The trucking industry has been hit the hardest by high gasoline prices. Several districts, especially Dallas and San Francisco, report that firms are increasingly passing on these high costs to customers as fuel surcharges. Hikes in electricity costs are concerns in both the Philadelphia and, especially, San Francisco districts.

Upward wage pressures have generally abated. Wages are rising very moderately or are unchanged in most parts of the country except the Richmond and San Francisco districts, where scattered wage increases are noted. Retail prices are steady in most districts except Richmond, where retail prices have been rising at a quicker pace in recent weeks. By and large, non-energy input costs are stable, with only a few exceptions. Manufacturing materials prices in the Chicago and Kansas City districts, for example, continue to rise, while construction materials prices in the Minneapolis district have decreased somewhat. The Dallas district is experiencing downward price pressures for metals and high-tech products. The Atlanta and Chicago districts note increases in health insurance costs.

Real Estate and Construction

The consensus across most districts is that residential sales and construction have been picking up or steady, although segments of the market in some districts are experiencing a slowdown. Agents in the Boston, Cleveland and Richmond districts report that stronger sales of

low- to mid-priced single-family homes account for most of the increase in residential activity. The Boston and New York districts note active residential real estate markets, although the New York district reports some market easing since the last report, while Boston district markets still face housing shortages. Home sales in the Chicago district have been better than expected, with price appreciation remaining strong and housing shortages persisting. St. Louis district agents are seeing excess inventories of housing begin to shrink. In the San Francisco district, home sales are strong in Hawaii, while they are slowing in Washington. The Atlanta district is experiencing a flat-to-down trend in sales of new, single-family homes, even though strength is apparent in most Florida markets, where home sales and construction are up from a year ago and prices continue to increase. Home construction is strong in the New York district, despite a drop in demand in New Jersey.

Commercial construction across districts is a bit more uneven. The Philadelphia district reports that, despite strong activity, contract awards have recently declined. The San Francisco district notes that overall activity remains sound, even though vacancy rates are up and rental rates are down in some regions of the district. The Kansas City district indicates that activity is flat and that sales and leasing have fallen. The Dallas district is experiencing a slowing in commercial construction, with demand for all types of nonresidential space down. Construction in areas of the Cleveland district are stagnant, with many firms reportedly putting expansion plans on hold indefinitely. In the St. Louis district, however, contractors indicate that there has been a consistent flow of new projects, a trend they are optimistic will continue.

Banking and Finance

Lower mortgage rates have led to a resurgence of refinancing in many districts. In the Richmond district, for example, a banker has indicated that refinancing now accounts for almost 90 percent of his bank's lending activity. Mortgage refinancing is also up in the Atlanta, Chicago, Kansas City and New York districts. The Philadelphia district notes that home equity

loans are on the rise, as consumers consolidate other debts into these loans. At the same time, many districts have observed declines in business loan activity. The Dallas district notes that businesses are now frequently using such loans to pay for operating costs instead of expansions. The New York and Philadelphia districts, though, are seeing some upticks in business lending. The Kansas City and St. Louis districts report declines in consumer loans, an ongoing trend in the St. Louis district. The Atlanta, Cleveland and New York districts, on the other hand, have seen increases in consumer loans. The San Francisco district reports that loan growth, in general, has moderated.

Half of the districts—Atlanta, Chicago, Dallas, Kansas City, New York and San Francisco—are reporting tighter credit standards, particularly for business loans; the Cleveland district, however, reports that credit standards have remained essentially unchanged. The Richmond district notes that lenders have become more cautious when making loans to marginally profitable businesses. The Kansas City district reports deposit growth in line with loan growth; the St. Louis district reports stronger deposit growth than loan growth.

Agriculture and Natural Resources

Agricultural reports are mixed. The winter wheat crop is developing well in the Cleveland district, is varied widely across the Kansas City district, and, because of abundant moisture levels, is in good-to-excellent condition in the St. Louis district. The Cleveland, Kansas City, Minneapolis, and St. Louis districts note some delays in plantings and development of other crops. In contrast, the Richmond district reports good planting conditions for corn, but notes that an early April cold snap caused some damage to apple and peach crops and forced vegetable growers to replant several crops. Limited water and high energy prices are encouraging farmers in the Dallas district to plant cotton instead of corn. Producers in parts of the St. Louis district intend to substitute cotton for corn and soybeans on some acreage. Most crop prices remain depressed and continue to adversely affect farmers.

The energy sector continues to strengthen in the Dallas, Kansas City and Minneapolis districts. In the Kansas City district, the count of active oil and gas rigs has risen to its highest level in 10 years; in the Minneapolis district, oil and gas exploration has remained above year-ago levels in response to higher prices. Shortages of equipment and personnel are reported in the Dallas and Kansas City districts, and mining production is decreasing in the Minneapolis district because of softening demand and high energy costs.

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FIRST DISTRICT – BOSTON

Economic activity is slowing in the First District. With the exception of the tourist industry, contacted retailers say sales in the first quarter were flat to down from a year ago. Similarly, more than one-half of manufacturing respondents indicate recent sales or orders are down or flat compared with a year earlier. The residential real estate market remains healthy, constrained mostly by lack of inventory. Contacts report that hiring has become somewhat easier and wage pressures have lessened. Both retailers and manufacturers say they are not raising prices.

Retail

Retailers report that sales were flat to declining slightly in the first quarter of 2001 compared with the year-earlier quarter. These results were worse than expected, yet inventories are generally said to be at desired levels. Contacts in consumer durable goods sectors (hardware, furniture, building materials, autos) say demand is weak. Discount retailers claim demand has softened because their lower-income customers are facing a fuel price squeeze. By contrast, tourism continues to be a bright spot, with no evidence of a slowdown in spending.

Employment levels are mostly said to be holding steady, with only a few retailers selling discount goods or autos reporting lay-offs. Labor markets have loosened and wages are now said to be flat, no longer rising. Retail contacts say they are holding their prices level and they are seeing only sporadic increases in vendor prices. Efficiency improvements are reducing costs for many retailers, with margins said to be increasing slightly.

Retailers have turned cautious, with the majority of contacts saying that they do not intend to expand their operations in 2001. Contacts expect economic growth to be slow for the entire first half. Looking ahead to the second half of 2001, retailers are uncertain and anxious. They are concerned that recent stock market declines could severely affect consumer sentiment, yet they see consumers continuing to be buoyed by New England's high employment levels.

Manufacturing and Related Services

About one-half of First District manufacturing contacts report that recent sales or orders are down relative to a year earlier. The remaining one-half indicate that business is flat or up. Half of the firms contacted express concern about excess inventories. Most respondents say they are uncertain or concerned about the outlook for the remainder of 2001.

Manufacturers supplying the semiconductor industry report that demand has weakened; they are bracing for a continued slump in the second half of the year. Makers of automotive parts say revenues are down as much as 15 percent from a year ago, but some see evidence of business stabilizing at these lower levels. Consumer products companies say sales are flat or down; overseas business is particularly weak. By contrast with these declines, orders for aircraft parts, medical equipment, and products for the electric power industry are said to be increasing at strong double-digit rates. Sales of some types of computer-related equipment are up considerably from a year ago, but the increases are not as strong as they were last year.

Citing a weakening in revenues or the risk of an economic downturn, many manufacturers report new efforts to reduce costs. Roughly two-thirds are tightening their belts with respect to capital spending. They are adopting more stringent criteria for payback periods and stretching out or deferring investment projects. The majority of contacts have implemented layoffs or are considering layoffs in the near future. Firms that are hiring generally say that the number of available applicants has increased and their compensation expectations have become more reasonable, although some engineering and information technology positions remain challenging to fill.

Respondents indicate that materials costs are generally flat or down; far fewer express concern about energy or transportation costs than in the last Beige Book. Selling prices are said to be mostly flat or down. Large customers in the retail, automotive, and aircraft industries are pushing for price reductions.

Residential Real Estate

The residential real estate market in New England is doing well. All contacts report moderate or high levels of activity, but complain about inventory shortages. If more properties were on the market, sales would be higher, as there is excess demand in many parts of the region. Although high-end home sales have slowed somewhat, low-end single-family homes and condominiums sell very quickly and, according to a Vermont contact, “there is nothing to sell.”

In Massachusetts, the pace of shrinkage in inventory has abated. Most contacts report moderate price increases. The average sale price in Massachusetts rose by 10 percent between February 2000 and February 2001, less of a year-over-year increase than in previous months, mainly as a result of fewer high-end sales. Contacts hope to see an increase in supply and anticipate an active market in the next few months.

Insurance

Most contacts in the insurance industry report modest growth in sales in the first quarter of 2001, but some mention a loss of revenue as many people are pulling out of equity products. One referred to the situation as “trying to fill a bucket with a hole in it.” All of the contacts that offer equity-based products note a dramatic shift from variable-income to fixed-income products. All respondents say their employment levels are stable but one mentions a potential need for cutbacks if the general economic outlook does not improve. The labor market for information technology workers seems to be loosening slightly, which has also relieved wage pressure. One contact was quick to add that the market is still tight, just not as tight as last quarter.

Capital spending plans have not changed much since our previous conversations in January. One contact says that they are taking advantage of soft demand for computers and accompanying reduced prices to replace all of their office computers. Another large company, by contrast, indicates that all capital projects are going to be put on hold because of questions about the economy. The rest say that they are not making any changes to their short-term or long-term capital expenditures.

SECOND DISTRICT--NEW YORK

Despite some signs of softening, economic conditions in the Second District remain somewhat favorable, with growth continuing at a moderate pace. Cost pressures appear to have abated somewhat since the last report, and prices of finished goods and services continue to be stable. Labor markets remain tight, though somewhat less so than in the last report. Most retailers report that same-store sales were below plan in March and recovered only moderately in the first two weeks of April; retail selling prices were little changed.

Commercial real estate markets, though still tight, have cooled since the last report—while office rents are still up sharply from a year ago, availability rates have risen and a substantial volume of leased space is available for sublet. Housing demand in the New York City area has softened, though prices are still up sharply from a year ago and market conditions remain tight; realtors in the Rochester area note a pickup in home sales and prices. Purchasing managers report mixed to improved conditions in manufacturing in March. Bankers report a strong pickup in demand for home mortgages, steady delinquency rates, and tighter credit standards on commercial loans and nonresidential mortgages.

Consumer Spending

General merchandise sales were well below plan in March, though most retailers noted some improvement in the first half of April—even after adjusting for the earlier Easter. Compared with a year ago, same-store sales for the two months combined appear to be running between 0 and 4 percent higher. While most contacts cite unseasonably cool weather as a factor in sluggish Spring sales, most of the softness was attributed to underlying weakness in demand resulting from reduced discretionary income and low consumer confidence. Sales of warm weather merchandise—mainly summer clothes and lawn & garden products—and home nondurables (linens, draperies, etc.) were described as particularly weak, while women's apparel sold better than men's and children's.

Despite the disappointingly soft sales, most major chains say that inventories are in reasonably

good shape; only two report some overhang. Retail contacts indicate that selling prices, merchandise costs and promotional activity continued to be virtually unchanged from a year earlier, though utility costs have risen substantially. Most major chains report that retail wage pressures have become somewhat less pronounced in recent months, with one contact reporting a noticeable decline in employee turnover.

Separately, automobile dealers in the Buffalo area indicate that sales of new vehicles, which had fallen sharply late last year, have recovered somewhat in early 2001 but remain lower than in early 2000; sales of light trucks are especially low. In contrast, used car sales are reported to be up sharply.

Construction and Real Estate

Residential and commercial real estate markets, though still generally tight, have shown signs of easing since the last report. Home construction activity has remained strong—particularly in the New York City area. New Jersey homebuilders indicate that some recent slowing in demand has merely shortened the queue to 9 months from over 12 months, and has had no effect on the level of construction. Similarly, remodeling activity remains robust. House prices in the New York City area have leveled off, though they are still running roughly 10 percent ahead of a year ago. Manhattan's co-op and condo market has softened further in recent weeks, with prices edging down and unit sales falling sharply. A leading New York City residential realtor reports that the first half of April has brought "two of the deadest weeks in a long time." Decent traffic is reported at open houses, but buyers and sellers are often having trouble negotiating a price; this has translated into longer listing times and fewer transactions.

Office markets in and around New York City continue to be tight, though less so than in the last report. While Manhattan's availability rates have risen only modestly from historically low levels and asking rents are still up 20 percent over the past year, a substantial amount of leased office space is said to be available for sublet. Similarly, in northern New Jersey, office vacancy rates held steady in the first

quarter, but the space available for sublet has doubled over the past nine months. Moreover, with signs of weakening demand and increased supply—nine million square feet of office space is currently under construction, largely along the Hudson waterfront and in Somerset County—landlords are reported to be offering more incentives. Demand for high-tech telecommunications space (“telco hotels”) has reportedly fallen off sharply since last year. In Long Island, however, there has been no noticeable softening: vacancy rates are little changed and rents are up 7 percent from a year ago, buoyed by corporate expansions in the financial services, legal services and technology industries. Finally, a commercial real estate firm in western New York State reports continued strong demand for office space near Buffalo’s airport.

Other Business Activity

A major employment agency reports that New York City’s labor market remains tight but a bit less so than in the last report. There continues to be a backlog of demand for workers—largely from the financial services industry—though it has become less pronounced in recent weeks, as some clients scaled back hiring. The agency also reports that wages, after rising sharply in 2000, have leveled off.

In the manufacturing sector, purchasing managers report mixed, but generally improved conditions in March. Purchasers in the New York City area report that manufacturing activity continued to expand in March; those outside manufacturing report that conditions continued to weaken, though to a lesser extent than in January and February. Overall, input price pressures were reported to be more subdued in March than in January or February—both in manufacturing and in other industries. The notable exceptions were energy commodities, computer software, and contracted cleaning, engineering and architectural services.

Buffalo-area purchasers report that conditions in the local manufacturing sector improved slightly in March—new orders rebounded from a February dip, production activity registered a normal seasonal pickup, but hiring activity receded. Input price increases were slightly less widespread than

in February. However, Rochester-area purchasers report further weakening in business conditions and declining employment in March, along with intensifying input price pressures.

Financial Developments

Nearly 70 percent of Second District banks surveyed note increased demand for residential mortgage loans since the last report. Home mortgage refinancing also strengthened substantially. Demand for consumer loans posted a typical seasonal rise, while loan demand in other categories—nonresidential mortgages and commercial credit—was stable.

On the supply side, banks report further tightening in standards for nonresidential mortgages and commercial and industrial loans; roughly 30 percent of respondents indicate tightening standards in both categories, while none report easing. Standards for other types of loans were reported to be little changed. Bankers reported lowering rates on both deposits and on loans in all categories. Delinquency rates for all types of loans were reported to be unchanged.

THIRD DISTRICT – PHILADELPHIA

Third District business conditions were mixed in April, although there were some signs that consumer spending was strengthening. Manufacturers saw further declines in orders, but shipments were steady. General merchandise sales rose slightly in mid-April after several weeks of easing. Auto sales also improved somewhat. Bank loan volumes outstanding have been rising slightly, mainly because of small gains in commercial and industrial lending. Residential real estate activity remains fairly high, but commercial leasing has eased. Service sector activity remains somewhat below the level achieved around the beginning of the year.

The consensus forecast among the businesses contacted for this report is that overall economic activity will move up slowly in the months ahead. Manufacturers in general expect an increase in orders within the next six months, although not for all the industrial sectors in the region. Retailers anticipate marginal gains in sales for the rest of this year compared with last year. Bankers anticipate minor increases in business and consumer lending, but they expect some falloff in demand for real estate loans. Capital spending among area firms has been pared back, for the most part, although electric utilities are proceeding with expansion plans.

MANUFACTURING

Third District manufacturers reported continued easing in new orders in April, but a steady rate of shipments. This marks a leveling off of the decline in shipments that began in January. However, order backlogs continued to fall. Most of the major manufacturing industries in the region experienced some respite from the first quarter's downward trend in shipments, but producers of chemicals and transportation equipment reported continued decreases.

Manufacturers continue to face high costs for fuels and electricity. They report that their ability to raise prices for their products is limited by competition from Asian and European firms that benefit from the low value of their currencies in relation to the

U.S. dollar. In addition, several firms indicated that their major customers were looking for price reductions as a condition of further purchases.

Manufacturers expect business conditions to improve during the next six months. Firms in all major industrial sectors except chemicals, transportation equipment, and instruments expect increases in orders. Despite the forecasted increase in business, area manufacturers project no rise in order backlogs. The region's manufacturers intend to limit capital expenditures, on balance. Nearly half of those contacted for this report will maintain steady rates of capital spending during the next six months, and the number of firms planning increases is offset by an equal number reducing capital spending budgets.

RETAIL

Retail sales in the Third District rose slightly in mid-April after dropping in March. Merchants indicated that the onset of warmer weather boosted sales of spring apparel and other seasonal merchandise. The year-over-year gain has been slight, however, and sales of home appliances and jewelry have been weak. Although some furniture and home furnishing stores have posted gains recently, sales of big-ticket items have been relatively slow, and merchants say shoppers are being cautious in making major purchases. Most retailers also indicated that store traffic remains below normal levels.

Store executives generally forecast very slight growth in sales during the rest of the year. Although most retailers described their inventories as appropriate for the current sales rate, many have reduced the level of inventories they plan to hold for the balance of the year. Some retailers have also indefinitely postponed plans to remodel stores.

Auto dealers indicated that sales had picked up in recent weeks. Manufacturers' incentives remain extensive. Dealer inventories were generally in line with sales, and dealers were ordering cars from makers only as needed to keep up with current demand. Most of the dealers contacted in late April said they expect sales for the remainder of the year to be steady at a pace about 5 to 10 percent below last year's rate.

FINANCE

Total loan volume outstanding at Third District banks was rising slowly in April, according to bankers interviewed at mid-month. Most of the increase has been in commercial and industrial lending. Some bankers noted recent increases in requests for business loans to facilitate changes in ownership of middle market firms. Several banks reported that home equity lending was rising as a result of individuals consolidating other debt and borrowing against their home equity credit lines for automobile purchases and home remodeling. Mortgage refinancing activity was strong. Outstanding credit card loan volume was steady, on balance, at banks in the District.

Bankers in the Third District expect overall loan volumes to increase slightly this year. They anticipate modest increases in business lending and slow growth in consumer loans. In general, they expect some easing in demand for real estate loans, both residential and commercial. However, there appears to be some increased interest in commercial real estate lending in the region by nonbank financial institutions.

REAL ESTATE AND CONSTRUCTION

For the Third District as a whole, existing home sales have been roughly steady recently and at a fairly brisk pace. Price appreciation has been steady for existing homes, although a bit below last year's rate. Several builders noted that they have been selling new homes for prices above the projected price. Permits issued for new homes increased slightly in the first two months of the year. Nonresidential construction activity remains strong, although contract awards have declined recently. While office and industrial markets remain tight in most parts of the Third District, there have been some recent increases in vacancy rates in a few areas. Commercial real estate contacts indicated that leasing activity has slowed somewhat and that some commercial developers have postponed starting dates for previously announced projects.

SERVICES AND UTILITIES

There appears to have been some slight easing in the personal and business services sectors since the beginning of the year, although law firms generally report steady business. Financial services firms have had mixed results. Activity has declined

for firms primarily serving individuals, but has been mostly steady for firms serving businesses. Firms in the travel and hospitality industries report some slowing recently, although they forecast marginal growth later this year if overall economic activity strengthens. Telecommunications firms have experienced declining activity since the beginning of the year, on balance, and they have cut back their investment in new equipment and buildings. In contrast, electric utilities in the region have scheduled fairly large capital projects.

FOURTH DISTRICT - CLEVELAND

General Business Conditions

Economic activity in the Fourth District continued to be weak. Steel producers and other manufacturers have seen no improvement. Layoffs have continued, and wage growth has slowed. Retailers reported flat sales on average. Commercial construction is flat. On the other hand, there have been some positive developments. Bankers are beginning to see an increase in loan volume, and residential construction is booming.

Industrial Activity

Manufacturing layoffs have continued even though many companies indicated that they are holding on to high-skilled workers despite the slack workload. To cope, some plants are offering workers voluntary time off, and overtime is authorized only when necessary to meet an order deadline. Basically, manufacturers are waiting for orders to pick up. Manufacturers generally remain optimistic that orders will rebound later in the year, but, being saddled with more capacity on hand than they require for current orders, they are reluctant to undertake any investment that would expand capacity until additional orders actually come in. One contact in machine tools manufacturing, a key component of capital goods, reported that his customers were starting to at least consider making purchases again, but he has yet to see a rebound in orders.

Shipments of flat-rolled steel hit their lowest level since 1992 in the first quarter of 2001. Contacts were most concerned with low prices, which they attributed to excess capacity and cheap foreign imports. Most mills are focused on reducing working capital and costs and plan no major capital spending for this year. High-performance specialty steel for aerospace, oil and gas, and electrical machinery is a rare bright spot in the industry. Demand from this market segment is expected to remain strong over the next few quarters.

Consumer Spending

Consumer spending appears to have been mixed in March and early April. For retailers, large markdowns during the first two months of the year appear to have reduced excess inventories. These markdowns have now ended, and contacts are pleased with the volume of sales for new spring merchandise, but the increase is believed to be seasonal and not necessarily a sign of a better economic climate. In contrast, non-apparel sales

were generally unfavorable across the board. Computer and other electronic retailers reported a large decrease in sales.

On the positive side, auto dealers reported that their sales were much better in March and April than at the beginning of the year. On average, car sales for March are about the same as they were for March of last year. However, truck sales, both new and used, have done very poorly this year. Sales have been dependent on dealer incentives; the best selling models tend to be the ones with the most generous incentives. Overall, contacts observed that inventories have returned to a more desirable level.

Labor Markets

The labor market in the District has continued to soften. Hiring has eased, layoffs have increased, and wage growth has been muted. The hardest hit sector appears to be manufacturing. One employment agency manager stated that no one is hiring temporary workers and that many of his customers are even laying off regular employees. In fact, some contacts expressed feeling that conditions for temporary workers were worse than February, which had been described as "dismal." Other contacts reported that February appeared to be the trough, and, while things are not getting better, they have not gotten any worse during March and early April.

Organized labor contacts reported either no change or only slight increases in wages in March and early April. Wages for temporary workers, which may be more attuned to instantaneous market conditions, are said to have been flat or, in some cases, falling over this period.

There are a few signs that conditions may begin to improve. One contact noted that the automobile industry layoffs that occurred from late December to early February had been "small and targeted" and may be, for the most part, finished. As evidence, he noted that some laid-off employees already have been recalled and that overtime has picked up.

Construction

Conditions in the commercial building sector remained stagnant into early April, as many firms have reportedly put expansion plans on hold indefinitely. One builder noted that not only are firms not building, they are not even seeking quotes or estimates

as would be typical at this time of year. The only positive for commercial builders is that cost pressures remain muted for labor and materials.

In contrast, District homebuilders reported a significant improvement in their economic circumstances. One homebuilder reported selling more homes in the first quarter than in any other first quarter in his nearly 25-year history in business. Other homebuilders echoed these remarks, noting that their first quarter sales were also as good as or better than those of the first quarter of 2000. Builders credited the strong market to lower-end and mid-range homebuyers, who appear to be taking advantage of lower interest rates. Margins have remained steady, with land and lumber prices flat to falling and labor available.

Banking and Finance

Fourth District bankers have seen some signs of improvement, reporting that the demand for both consumer and commercial loans has begun to pick up. Lenders believe that lower rates are allowing some borrowers to refinance existing loans and other borrowers to take out new loans. However, in communities where layoffs from local steel companies and other manufacturers are most keenly felt, consumer loan demand is still weaker than this period last year.

Only one bank tightened its lending standards from March to mid-April; the rest reported that their standards were unchanged. Delinquency rates have increased slightly, but not at an alarming rate. Agricultural lenders noted that farmers are keeping current on their payments, but they are not making large capital expenditures or requests for loans.

Trucking and Shipping

Trucking companies are performing slightly worse than at the beginning of the year, while other shipping companies, such as air and boat freight, are performing slightly better. Most contacts reported that volumes were 5 to 10 percent lower from March to early April than over the same period last year. Many have cut current and future capital and equipment purchasing plans, while others merely have no plans to increase capital spending or purchase equipment.

Shippers generally do not expect a significant increase in activity until August or September at the earliest. They reported that higher fuel prices and clients' credit difficulties are growing industry problems.

Agriculture

The winter wheat crop appears to be developing well, and yields are expected to be above average. Cold and wet weather has temporarily delayed planting of spring crops in most areas of the District. As a result of high natural gas prices, the price of nitrogen fertilizer has sharply increased, causing some farmers to cut back on its use and accept lower yields. High fuel prices are also a concern.

FIFTH DISTRICT—RICHMOND

Overview: The Fifth District economy expanded at a modest pace in the weeks since our last report. Retail sales were somewhat lower in March, but strengthened noticeably in recent weeks. Revenue growth at services firms picked up appreciably in March and April. The manufacturing sector, however, continued to struggle; shipments and new orders declined further since our last report. Favorable mortgage rates boosted home sales and refinancing activity in recent weeks, but commercial real estate activity softened somewhat. In agriculture, ample rainfall provided excellent conditions for spring planting and small grain crops were reported to be in generally good condition.

Services: District services firms reported stronger sales and continued growth in employment in March and April. Wages in the sector grew at a moderate pace. There were, however, scattered reports of higher wages—an engineering firm in Charlotte, N.C., for example, increased compensation to attract specialized employees in a still tight labor market. Looking ahead, contacts in Charlotte, N.C., expressed some concern about future job losses in the wake of the First Union and Wachovia merger. Prices of services continued to rise at only a modest rate.

Retail: District retailers reported moderately higher sales growth since our last report. Most retailers reported little change in inventories. Automobile dealers in Washington, D.C., and the eastern panhandle of West Virginia, however, trimmed inventories as sales softened. After several months of decline, retail employment growth picked up in April. Retail prices rose at a quicker pace in recent weeks; higher gasoline prices in particular were a growing concern in a number of areas of the District.

Manufacturing: District manufacturing activity weakened considerably since our last report. Shipments and new orders moved lower, particularly in the fabricated metals, paper, electronics, furniture, and plastic products industries. A producer of plastic products in North Carolina said that the last few months had been very slow for his company and its customers; he expected sales during the next few months to be “grim.” Contacts at several furniture manufacturing firms indicated that their sales had tumbled and they cited big losses in consumers’ investment portfolios as a major contributing factor. Layoff announcements at chemical, textile, and automobile-related firms continued. On the price front, higher energy costs were a major concern. A paper

manufacturer in Maryland told us that slack product demand had forced his company to absorb substantial increases in energy costs. Manufacturers noted that their planned capital investment plans had lessened since late last year. Of the current investments, most were for replacement equipment and new product lines.

Finance: District loan officers reported uneven lending activity in recent weeks—residential mortgage lending picked up while commercial lending continued sluggish. Mortgage lending was bolstered by a surge in residential refinancings. A banker in Greenville, S.C., said that refinancings now represented 90 percent of his lending activity. In contrast, commercial lenders generally reported somewhat sluggish loan demand in recent weeks. Several contacts suggested that businesses appeared to be more hesitant to commit to loans, possibly waiting for the economy to improve before implementing expansion plans. Several lenders also noted that they were exercising more caution in extending credit to marginally profitable businesses.

Real Estate: Residential realtors and homebuilders reported steady to slightly higher home sales in recent weeks due to lower mortgage interest rates. Sales of homes in the low-to-middle price range showed the most improvement. A realtor in Asheville, N.C., said that recent sales in that area were well above year-ago levels with most of the strength coming from mid-priced homes. A realtor in Maryland said, “Sales are good and lower interest rates are making homes affordable.” But not all housing segments were stronger. District realtors linked weaker sales of higher priced homes to concerns with stock market volatility and a slowing economy. Most homebuilders reported steady building materials and labor costs.

Commercial realtors across the District noted somewhat weaker leasing and construction activity in recent months. Leasing activity was generally slower in the retail and office sectors. Large blocks of office space went back onto the market in northern Virginia and the District of Columbia because of weaker demand by high-tech firms. Class A office space remained generally tight in major metropolitan areas, although there were pockets of easing. A number of contacts reported lower office and retail rental rates. Commercial construction activity remained steady with very few speculative projects on line.

Tourism: Tourist activity strengthened in March and April throughout the District. A contact at a mountain resort in Virginia said that the ski season ending in March broke all previous attendance records. Looking forward, he indicated that higher gasoline prices could improve his business because residents of nearby urban areas might vacation closer to home this spring and summer. A hotelier on the Outer Banks of North Carolina told us that “business is booming” because of staggered spring breaks which boosted tourism in the weeks around Easter. The National Cherry Blossom Festival in Washington, D.C., attracted over 600,000 visitors in late March and early April.

Temporary Employment: Demand for temporary workers remained mixed in the weeks since our last report. Several contacts said that demand was strong for clerks and administrative assistants, but only moderate for industrial workers and skilled information technology personnel. A temporary agency contact in Cary, N.C., anticipated an acceleration in economic activity to spur stronger demand for temporary help, noting “at some point the economy has to rebound.” A Charleston, W.V., manager stated that chemical firms in the region were looking for additional temporary help in recent weeks, but he did not expect stronger demand to continue in light of consolidation in the chemical industry. Wages for temporary workers remained generally steady across the District.

Agriculture: Ample rainfall provided good tillage conditions in most areas of the District, allowing farmers in North Carolina and Virginia to get ahead of schedule in corn planting. The widespread rainfall also boosted pasture growth and reduced the need for supplemental feeding, particularly in North Carolina and West Virginia. An early April cold snap, however, caused some damage to apple and peach crops in North Carolina. In addition, vegetable growers in South Carolina had to replant some crops because of cold weather during the month.

SIXTH DISTRICT – ATLANTA

Summary: Reports from around the District suggested that the pace of economic activity remained subdued. While overall sales were up somewhat, on a same store basis, retail sales results were flat. Apart from Florida, single-family real estate markets were below last year's strong levels, and commercial markets experienced continued softening in most areas. In the banking sector, reports indicated that commercial loan demand remained at low levels, whereas mortgage loan activity was mixed, and auto loan volume had increased recently. The manufacturing sector continued to contract as firms worked to further reduce inventory levels. The tourism sector was generally upbeat despite some slowing in business travel. Employers reported that labor market supply conditions had improved, although demand for additional workers was slowing in many sectors. Cost increases were reported because of higher prices for insurance and fuel.

Consumer Spending: Retail sales results varied a great deal across the region and by store type. Overall, same store sales were flat during March, although early April sales were trending flat to up slightly relative to last year. The recent sales results met or slightly exceeded retailer's expectations, and inventories were generally in balance. Sales of shoes and children's apparel have been particularly strong recently in many areas, whereas reports on adult apparel and home-related products have been uneven. Retailers anticipated sales growth would pick up only slightly in the second quarter.

Construction: The District's market for new single-family housing was flat to down in March and early April in most parts of the District. However, home sales and construction increased from a year ago in most Florida markets, and relatively low inventories there were reflected in continued price escalation. The inventory of new high-end housing in Atlanta and

Nashville was reported as rising. Some realtors noted a slight improvement in existing home sales during early April.

Overall, reports on commercial construction indicated that most markets remained healthy, although activity continued to soften and developers were reportedly becoming increasingly cautious about future activity. More sublease office space was re-entering the Atlanta market and the amount of available industrial space had also increased there. The office vacancy rate declined during the first quarter in downtown Jacksonville and in the Nashville metro area but demand for new space remains subdued. Construction activity in the multifamily market has slowed noticeably so far this year. Many industry experts expected continued sluggishness this year.

Manufacturing: The majority of reports from the factory sector continued to note reduced production and further inventory adjustments in March and early April. New product orders remained weak in general and particularly in the durable goods sector. Continued inventory problems in the technology and telecommunications sectors were noted, and pulp and linerboard businesses had further cut production levels in order to reduce inventories. A vehicle producer periodically halted production recently to cut inventories, and some automotive component manufacturers have postponed planned expansions. A regional steel producer is shutting down operations because of strong foreign competition and low output prices. On a more positive note, oil and gas exploration has continued to spur the shipbuilding industry to hire new workers and build new offshore supply vessels in Louisiana and Mississippi shipyards.

Tourism and Business Travel: Reports were mostly positive about the District's tourism and hospitality industry. However, some slowing in business travel activity was noted in Atlanta. Miami contacts indicated a possible record tourist season this year. The cold

northern weather appeared to contribute to high occupancy levels at Florida resorts and motels. Although there is some worry that high fuel prices may slow summer tourism, recent bookings were very strong. Less positively, the Florida cruise industry has experienced somewhat of a slump for the first time in several years, due in part to excess capacity and moderating demand.

Financial: Recent loan activity varied considerably across the District. Overall consumer loan demand picked up slightly, and there was some strengthening of previously sluggish automobile loan market. Commercial loan demand continued to be lower than last year, and some banks have tightened loan approval standards and covenants for their business customers. Residential mortgage demand was mixed, while refinancing remained strong. Financial institutions increased provisions for loan losses, but have not experienced any serious declines in asset quality. There remained a dearth of new venture capital and IPO activity in the District.

Wages and Prices: Employers reported that labor market supply conditions had improved overall, although demand for additional workers was slowing in many sectors. There has been a continued reduction in hours worked recently and more layoff announcements. For some employers, this loosening has made filling vacancies easier.

Overall price inflation continued to be subdued in the District. The largest price increases were those associated with health insurance and fuel. Most agricultural crop prices remained depressed. Nonetheless, the just completed sugar cane harvest yielded a record crop and substantially higher prices than last year. Vegetable prices had also risen recently because of the low yields in Florida.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District remained slow in March and the first few weeks of April. Consumer spending picked up modestly in early to mid-April, after a generally soft early spring. Real estate and construction markets were active, but growth remained slow. Manufacturing activity was again weak, but contacts reported that some of the huge inventory overhangs that led to slower production had been substantially reduced. Lower interest rates spurred mortgage refinancing activity, while demand for business loans softened somewhat. The District's labor markets continued to develop slack as the region's unemployment rate topped the national average for the first time in nearly a decade. Spring planting was underway and progressing at a normal pace, but flooding along the Mississippi may cause some delays, and may result in disruptions to the flow of grain shipments out of northern terminals. Upward wage pressures continued to subside, while non-wage costs, particularly for medical coverage, remained a concern for small businesses. With the exception of energy costs, price increases at both the producer and retail levels remained subdued.

Consumer spending. Consumer spending was generally soft in recent weeks, though some contacts noted a slight pickup in early April. Most retailers reported that overall sales growth was meeting their generally modest expectations of low single-digit increases, but cooler-than-normal weather was hampering sales of some seasonal items. Appliances were selling well (buoyed by relatively strong home sales), as were electronics. Inventories were generally in good shape and there were no further reports of extraordinary promotional activity. Consumers appeared to be using credit cards more frequently to pay for their purchases, according to a small retailers' association contact who expressed concern that higher balances may lead to softer sales later in the year. Sales growth at casual dining stores also slowed to the low single-digits in year-ago comparisons. An industry contact noted that red meat prices had increased significantly and that the company continued to "take a hit" from higher energy costs, but menu prices were basically unchanged. A large auto group reported lower sales in March and April, as well as slightly slower service purchases. This contact also noted that new vehicle prices remained soft, but used car prices had firmed in recent weeks. Despite slower sales growth and generally softer economic conditions, most retailers reported that they were going ahead with expansion and capital expenditure plans. Gasoline prices rose sharply again this spring, but unlike last year, slower revenue growth is preventing at least one state from temporarily suspending gasoline sales taxes.

Construction/real estate. Overall real estate and construction markets were "active," according to contacts, but growth remained slow. Office vacancy rates were steady to slightly higher in most metro areas, although vacancies were reportedly rising faster in the suburban Chicago

market, where new product continued to come on the market. There was downward pressure on rents in those areas where vacancy rates were rising, particularly for class B and older class A space. Development of light industrial space reportedly slowed somewhat in recent weeks, while retail development was said to be steady. Residential activity was holding up better than most contacts had expected, despite what they considered to be less-than-favorable economic news. Both new and existing home sales were off modestly from year-ago levels in most areas, though there were pockets of strength. Average market time for existing homes was reportedly up, but home price appreciation continued strong as realtors indicated that shortages of listings persisted. Apartment rents continued to rise in most metro areas as vacancy rates decreased and little new product was being developed. One commercial builder indicated that the industry was holding back on capital spending until the second half of the year, when economic conditions were expected to improve and prices for heavy equipment were expected to decrease.

Manufacturing. The region's manufacturing sector remained weak into April, with few signs of improvement. Light vehicle sales nationwide were strong in the first quarter and incentive spending remained high, which along with production cuts helped bring inventories down to more desirable levels. Contacts, however, expressed concern that strong first-quarter sales may lead to slower sales later in the year. In addition, one industry contact reported that production was exceeding sales in April and that further inventory adjustments were probable. New orders for some heavy equipment products were reportedly at "recessionary levels," while inventories remained bloated and pricing power was virtually non-existent. Most contacts expected softness in heavy equipment industries to persist in coming months. A steel industry analyst indicated that imports of steel products fell off "dramatically." Some domestic steel producers announced price increases, but reported varying degrees of success in pushing them through to customers. By contrast, prices for gypsum wallboard remained well below year-ago levels, despite stronger shipments in the first quarter, as the industry struggled with low capacity utilization. A large telecommunications company contact reported that a "tremendous" inventory overhang will most likely keep the communications industry soft through yearend. The strong dollar continued to hamper exports of manufactured goods, according to an industry watcher. Most manufacturing contacts reported that their capital spending plans were being reviewed, substantially reduced, or put aside entirely.

Banking/finance. Overall lending activity was generally softer than earlier in the year with many contacts noting softening demand from business customers. Household lending, however, remained robust. All of our contacts said that mortgage refinancing activity had picked up or remained very strong, and new origination volume was stronger than had been expected. Most lenders suggested that the refinancing activity could lead to stronger consumer spending in the second half of the year, although one noted that some borrowers were choosing instead to pay down

home equity loan balances. Virtually all of our contacts suggested that there was a discernible softening in demand for business loans. Only a few contacts reported stronger business lending activity, but they all suggested that the increase came at the expense of their competitors (market share) or from businesses whose other sources of funds (commercial paper, venture capital, etc.) had dried up. Generally, bankers indicated that commercial lending standards had been tightened somewhat in recent weeks and overall credit quality was slightly lower. Margins on business loans were said to be increasing, despite lower interest rates. While plenty of money was available, some smaller high-tech companies found it difficult to attract capital as venture capitalists were becoming less diversified in their investments, according to one industry analyst. A contact in casual dining reported that some franchisees were seeking to sell back their stores because they could not obtain operating capital from their banks.

Labor markets. The average unemployment rate for District states climbed above the national average in February and March for the first time since mid-1992. In addition, initial unemployment claims through the first week of April were running nearly 80 percent above year-ago levels, and layoff announcements were frequent through most of the period. Most expanding companies reported greater success in finding qualified workers as labor shortages eased, but there were exceptions as some contacts in the construction and tourism/travel industries noted continued difficulty finding and retaining some workers. The manufacturing sector appeared to be the source for most of the softening, according to contacts. Manufacturing employment in the region was running about 2 percent below last year's levels, with many contacts pointing to the automotive industry as the primary source of weakness. One contact, however, argued that most of the manufacturing layoffs were behind us, but that cuts in the services sector were just beginning. As the economy slowed, some contacts suggested that wage pressures were abating and the pace of worker productivity increases had moderated somewhat. Small businesses continued to express concern over the increasing costs of providing their workers with health insurance, and reports of reduced benefits and dropped coverage became more frequent.

Agriculture. Crop acreage planted to corn was expected to decline about 3 percent from a year ago in District states, and fall 4 percent in the nation as a whole, according to the USDA's initial planting forecasts. However, soybean acreage was expected to increase about 3 percent in both the District and the nation. Seeding of the corn crop is underway in the Corn Belt with planting progressing at a "normal" pace, although slightly behind that of a year ago when dry soil conditions facilitated early and rapid progress in spring fieldwork. Planting in the agricultural lowlands near the flooding Mississippi River and its tributaries will be delayed—the extent of the impact is not yet established. In addition to the flooding, high water has closed extensive portions of the river to barge traffic and, in turn, disrupted the flow of grain shipments out of northern terminals.

EIGHTH DISTRICT - ST. LOUIS

Summary

The pace of District economy activity has continued to slow, particularly in the manufacturing sector, with reports of falling demand and cuts in employment. Employment in the retail trade and services sectors, on the other hand, has increased recently. Expectations in most sectors are for some upticks in both employment and demand sometime this summer. Retail sales have shown only modest gains in March and April, although April has been somewhat stronger than March. Real estate markets have been the bright spot, with sales of existing homes and construction of new homes picking up after a slow start to the year. Low mortgage rates are often cited as boosting sales and construction. Loan growth has remained modest, while deposit growth has picked up recently. Excessive rain and wide temperature fluctuations have delayed spring planting and new crop emergence.

Consumer Spending

Contacts report that sales growth in March and April is up slightly, around 3 percent on average from a year earlier, with April's growth being somewhat stronger than March's. Nearly half of the retailers note that growth has been above expectations. Electronics and luxury items, such as jewelry, have been slow sellers; home decor and women's clothing have posted strong sales. About half of the contacts remark that inventories are at desired levels, while the other half are paring excessive inventories through significant discounting. Most retailers, citing economic uncertainty and low consumer confidence, are cautious about summer sales, with many expecting little or no growth over a year earlier.

Car dealers report that March and April sales are down 5 percent on average over the same period last year. Many cite low consumer confidence and high gasoline prices as causes. Higher-priced vehicles, such as luxury cars and SUVs, are posting the slowest sales, while lower-priced and used vehicles are moving faster. Half of the dealers report that inventories are at desired levels. Dealers with excess inventories state that trucks, SUVs and luxury vehicles are the ones sitting on

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the lots. Most contacts expect moderate sales growth during the summer, though high gas prices may hinder sales of all but fuel-efficient models.

Manufacturing and Other Business Activity

Contacts report that over the past six weeks the manufacturing sector has continued to post slow employment growth and shrinking profit margins, although demand in the retail trade and service sectors has been picking up as of late. Layoffs are occurring in many industries, including steel, timber, electronics and plastics. Falling demand has led furniture manufacturers in Mississippi and Tennessee to lay off nearly 400 workers and a toy manufacturer in Kentucky to close a plant with almost 1,000 workers. High-tech firms, most notably in Memphis, continue to trim their workforces. Also due to slack demand, the steel industry continues to idle plants for one week or more. Some contacts in southern parts of the District, however, remark that employment growth in the retail trade and services sectors remains strong.

High energy costs remain a major concern for many industries. Hit especially hard have been small trucking companies and freight haulers, which are experiencing substantial profit losses because of high diesel prices. Labor shortage concerns are waning, as most contacts note that workers have been readily available in the last few months.

With some signs that consumer confidence is on the rise, contacts in many industries are anticipating moderate upticks in employment growth and demand by this summer. Most manufacturers, however, remain cautious because slowing demand has been the trend for several months now.

Real Estate and Construction

Housing sales in early April have picked up in most parts of the District, which real estate agents generally attribute to low mortgage rates. Inventories of homes, which were high earlier this year, have begun to decline, especially in the Memphis and northeast Mississippi areas. In Arkansas, agents note that sales of existing homes have remained stable, while new home sales are down; in some other District areas, sales of existing homes remain sluggish, while new home sales have increased.

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Residential construction has been mirroring sales recently, with monthly building permit levels up in almost all District metropolitan areas in February. Year-to-date permit levels through February in most District metro areas, however, are down from the same period in 2000, which had started out relatively strong. Commercial contractors report that the recent flow of new projects has been steady, a trend they are optimistic will continue.

Banking and Finance

Total loans outstanding at a sample of small and mid-sized District banks are up modestly, growing only 0.9 percent between late January and late March, and continuing a trend of mild growth. Growth in commercial and industrial loans and real estate loans hovered around the 0.9 percent rate as well. Consumer loan growth, on the other hand, has continued its recent slide, falling about 3.5 percent during the same period; it was down in the previous period as well. Deposit growth has picked up recently, posting a 2.5 percent gain through late March. This hike continues a trend started late in 2000.

Agriculture and Natural Resources

Excessive rain and wide swings in day-to-day temperatures in April have delayed spring planting and the emergence of crops in many areas of the District. The planting of the corn crop is behind schedule in most District states; rice planting in Arkansas and Mississippi, on the other hand, is ahead of schedule. An early look at the planting intentions of farmers in the northern portion of the District shows modestly less acreage devoted to corn and modestly more devoted to soybeans. Contacts report that this shift from corn to soybeans is due to corn's high costs and low price prospects. In the southern portion of the District, farmers intend to substitute cotton for corn and soybeans on some acreage.

Soil moisture levels are closer to normal this year than a year ago, with all District states reporting adequate-to-surplus topsoil moisture. Boosted by abundant moisture levels, the winter wheat crop in all areas is in good-to-excellent condition.

NINTH DISTRICT--MINNEAPOLIS

The long winter, high energy costs and spring floods have taken a toll on the Ninth District economy. Manufacturing, mining and agriculture activities are down. Consumer spending is flat, and tourism and construction are growing at a slow rate. However, the energy sector is expanding at a solid pace. Labor markets are loosening and wage increases are moderating. Overall, prices are mixed, with decreases noted for some construction materials and increases for energy and housing. Investment in buildings and machinery has slowed in most sectors during the past 12 months.

Construction and Real Estate

Commercial construction is mixed. Construction contracts awarded in the Dakotas and Minnesota increased 16 percent for the three-month period ending in February compared with the same period last year. However, a Minneapolis-area construction equipment dealer reported that its sales slowed during the past six months. A building official in Sioux Falls, S.D., claims that local contractors and architects are busy, but commercial construction will likely finish 2001 at lower levels than in 2000.

Growth in homebuilding slowed. Housing units authorized were down 10 percent in the district for the three-month period ending in February compared with a year earlier. However, as lots become scarce in cities, homes are sprouting up in outer ring suburbs. A development in a northern suburb of Minneapolis plans to break ground on 1,000 new homes, and a subdivision near Missoula, Mont., plans to add 200 homes.

Consumer Spending and Tourism

Overall retail sales are flat to increasing slightly. A major Minneapolis-based department store retailer noted that March same-store sales were up 2.4 percent compared with a year earlier and expects to open 90 new stores this year. A national retailer based in Menomonee, Wis., reports same-store sales down 1.9 percent in March compared with a year ago. This retailer has opened about 30 new stores this spring and plans to open 26 new stores in the fall. A mall manager in Duluth, Minn., reports March sales slightly ahead of year ago. A Minneapolis-area used computer and component dealer noted that the demand for used computers has increased during the past three months.

Spring tourism activity is moderate. Tourism activity in Duluth is up about 4 percent over a year ago, according to a tourism official. The Duluth convention center opened 60,000 feet of new space during the past two months, but overall investment in new

hotels and restaurants has slowed during the past year. A Montana ski resort is undertaking a \$300 million expansion beginning this summer.

Manufacturing

Manufacturing activity is depressed in most parts of the district. A March purchasing manager survey by Creighton University indicated slower manufacturing activity and weak new orders in Minnesota. As evidence, a Minnesota power equipment plant is cutting production and a die-casting manufacturer plans to close a factory this summer.

Manufacturing activity in the Dakotas was mixed. A high-fructose sugar facility in North Dakota reopened after a two-month shutdown. A lumber mill in South Dakota will reopen after being closed for five weeks. In contrast, a bank director noted weak manufacturing activity in South Dakota.

Manufacturing business investment is weak. An Upper Midwest machine tool distributor reports that manufacturers are uncertain about the economic future and, therefore, are stalling on capital equipment purchases. According to an informal survey of manufacturers, many firms are waiting for increased sales before they add capacity. However, several saw mills in Wisconsin and the Upper Peninsula of Michigan plan to purchase fixed equipment this year even though inventories are building.

Mining and Energy

The energy sector strengthened, while the mining industry weakened. District oil and natural gas exploration remained above year-ago levels as prices for these products continue at high levels. North Dakota's fourth quarter 2000 sales tax revenues for oil extraction were up 49 percent from year-earlier levels. Meanwhile, mining production is decreasing due to softening demand and high energy costs. Two iron ore mines in the Upper Peninsula of Michigan plan to temporarily shut down this year. A Montana mining industry spokesperson said that all mines are concerned about high diesel and electricity costs.

Agriculture

Spring flooding, higher input costs and low prices are a concern for many district agricultural producers. Several Minnesota farms were under water due to near-record spring flooding, and many district farmers have delayed fieldwork due to surplus moisture. The U.S. Department of Agriculture (USDA) reports surplus topsoil moisture in over a third of the Dakota farm acres. According to a North Dakota dealer, fertilizer prices have gone up 10

percent since January. Meanwhile, the USDA projects continued low prices for wheat, corn and soybeans. In addition, still hurting from drought, many Montana ranchers are hauling food and water to animals.

The outlook for capital equipment purchases is weak, based on results of the Ninth District's first quarter (February 2001) survey of agricultural credit conditions. Below normal levels of machinery loans are expected in the next quarter by 38 percent of lenders. In addition, 61 percent of lenders expect farm capital spending to be below-normal levels over the next three months.

Employment, Wages and Prices

Layoff announcements are in the news. For example, an advanced circuits company plans to lay off 500 employees at four Minneapolis/St. Paul-area plants. A major food wholesaler and retailer will cut almost 300 Minnesota jobs in a restructuring move to improve earnings. A circuit board plant will lay off 200 workers in Minneapolis. A smelter in Montana will close, leaving 238 people looking for work. The number of people on unemployment insurance benefits in Minnesota was about 25 percent higher in March compared with last year.

Nevertheless, a recent survey of Minnesota's largest firms shows that hiring and retaining workers remains the most important factor to their businesses, above wage rates and state taxes. A poll by a major temporary staffing agency showed that 27 percent of respondents in Minneapolis-St. Paul are planning to add staff during the next three months compared with 11 percent who plan to reduce staffing levels.

Overall increases in wages are modest, with higher increases sought in some contract negotiations. Only 20 percent of respondents to a survey of manufacturers in Minnesota, Wisconsin and the Dakotas report higher wages in March compared with 58 percent a year ago. In contrast, a major airline reached a tentative agreement with its mechanics union that calls for pay raises of 13 percent to 24 percent.

Price changes were mixed, with increases in energy and housing and decreases in building materials. A Minnesota chamber of commerce representative noted that electricity prices are higher and in some areas petroleum prices are over \$2 per gallon. The amount owed on past-due accounts is 170 percent higher than last year due to an unusually long winter and high natural gas prices, according to a Minnesota utility. Home prices in Rochester, Minn., have increased 14 percent compared with a year ago, according to a local

government official. In contrast, a bank director reported lower prices for drywall. Prices for framing lumber were down almost 20 percent in March compared with a year ago.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy remained sluggish in March. Retail sales were flat, manufacturing activity slowed further, and commercial construction was unchanged from previous surveys. On the positive side, energy activity continued to boom, and residential construction edged higher following months of weakness. In the farm economy, recent rainfall improved prospects for the winter wheat crop while delaying the planting of spring crops. District labor markets showed additional signs of easing, although they remained generally tight. The pace of wage increases also slowed. Retail prices held steady, while prices for some manufacturing materials continued to rise.

Retail Sales. Retail sales in March were largely unchanged from February and remained below year-ago levels in some parts of the district. Sales of high-ticket items were generally weak, reportedly due in part to declining equity markets. Most other items moved well, but not enough to boost total sales. Inventory levels edged higher and expectations of future sales softened from previous surveys. Motor vehicle sales improved in most places after slowing during the winter. Most dealers were satisfied with their current inventories of unsold cars. Optimism continued to build about summer vehicle sales, as dealers expect a further release of pent-up demand from consumers. There was, however, some concern about the effect of rising gasoline prices on sales of SUVs and minivans.

Manufacturing. District factory activity continued to weaken in March, as more firms were operating at a low level of capacity utilization than in the recent past. Lead times edged down with the decrease in production. Some manufacturing material problems surfaced, but most inputs remained generally available. Most plants were trimming inventories and plan to continue

reducing stock levels into the summer. There were also reports that many firms were cutting back on large capital spending projects this year.

Real Estate and Construction. Residential construction activity rose slightly in March, while commercial building was flat. Housing starts in most of the district edged up from February but were largely unchanged from a year ago. Most builders expect residential construction activity to edge up further in coming months. In some markets, however, sales of new and existing homes remained weak and inventories of unsold homes continued to build. Mortgage demand remained strong, primarily due to heavy refinancing activity. Lenders expect this refinancing activity to continue into the summer. Commercial construction activity was flat. The pace of commercial sales and leasing activity fell somewhat, pushing vacancy rates up slightly.

Banking. Bankers report that loans and deposits both increased since the last survey, leaving loan-deposit ratios little changed. Demand eased for consumer loans but increased for most other loan categories, especially commercial real estate loans. On the deposit side, all major categories rose. Some bankers attributed the increase in deposits to consumer nervousness about the stock market. All respondent banks reduced their prime lending rates, and most also decreased their consumer lending rates. Most respondents said they did not expect to adjust these lending rates further in the near term. A few banks tightened lending standards, citing the slowing economy.

Energy. Energy activity in the Tenth District continued to expand in March. The district's count of active oil and gas rigs rose to the highest level in ten years, as energy prices remained high by historical standards. Interest in shallow coal-bed methane remained strong, and district sources reported more investment in deep oil and gas development than in previous

surveys. Several contacts continued to express concern about shortages of drilling equipment and workers.

Agriculture. The condition of the district's winter wheat crop varied widely. In some areas, the crop remained in poor condition following a dry autumn and harsh winter. Elsewhere, recent rainfall improved prospects for the wheat crop while delaying the planting of corn, soybeans, and other spring crops. District bankers continued to watch farm loan portfolios closely, although few have tightened farm lending standards. Bankers expect low crop prices and high fuel and fertilizer prices to limit incomes for crop producers this year. Strong livestock prices, however, should boost incomes for cattle and hog producers.

Wages and Prices. District labor markets continued to show signs of easing in March but remained generally tight. Workers appear to be nervous about the prospect of future layoffs and district sources report some workers have been putting in longer hours in an attempt to enhance their job security. Most manufacturing firms now report few difficulties finding workers. On the other hand, construction and entry-level retail workers remain in short supply in some places. Skilled labor has also been hard to find in the booming energy-producing areas of the district. Overall wage pressures continued to ease, and many companies have put wage and benefit increases on hold. Retail prices held steady in March, and some retailers expect a slight decline in prices in coming months. Prices for manufacturing materials continued to rise, due largely to transport cost increases. Most purchasing managers expect material prices to stabilize during the summer. Building material prices remained largely unchanged.

ELEVENTH DISTRICT—DALLAS

Eleventh District economic activity decelerated in March and early April. Contacts in most industries expect activity to remain sluggish throughout the year. Manufacturing activity continued to decline, and demand for business services weakened. Retailers said sales were weak or declined in March, with a slight pick up in early April. Financial service contacts say credit standards are tighter. Construction activity has softened, except in Houston. The energy industry continues to be a bright spot, although activity is still restrained by shortages of crews and equipment. The livestock industry is in good shape, but many farmers face high costs and low product prices.

Prices. There were more reports of price declines than price increases, with downward price pressures particularly noted for high technology products and metals. High energy costs are a concern for nearly all industries, and a few manufacturers have added fuel surcharges. Low inventories for most energy products suggest there will be little relief from high energy prices this year. Crude inventories have been growing steadily but are four percent below the levels of a year ago. Heating oil and natural gas inventories are more than one-third below the levels of last year, which were considered insufficient.

Labor Markets. While some manufacturers reported layoffs, hiring continues in several industries, and there are still reports that quality workers remain elusive. Most contacts say wage pressures have leveled off, but wages have not fallen.

Manufacturing. Manufacturing activity continued to decline in March and early April, with a drop in activity for high technology, metals, petrochemicals and paper products. Improved weather in April led to a slight pick up in sales growth for some construction-related products, such as for some lumber products, cement, concrete, clay and glass. Still, first quarter sales were very poor for these products, down between 6 and 15 percent compared to a year ago.

Sales of high-tech products continued to decline over the past 30 days, according to manufacturers, although some reported signs of flattening out. Sales have been weak in the U.S. and, more recently, Asia. Inventories of cell phones are high, and some say the inventory on hand is becoming obsolete. Inventories remained under control for many other products, such as for personal computers and some semiconductors

such as logic chips and power sources. Contacts expect employment levels to continue to fall and capital investment to be significantly lower this year than in 2000.

Metals and paper producers also reported weaker demand since the last beige book. Some steel mills have reduced production by as much as 50 percent. Strong demand for metal products used in the oil field has slightly mitigated the negative effects of widespread slowing. Paper production has also been cut to return inventories to manageable levels, and prices have fallen.

Petrochemical producers are facing the worst market conditions in 15 years, and several large producers have declared bankruptcy. Natural gas prices doubled over the past year (a critical input to manufacturing petrochemicals), international demand has dropped and considerable new capacity is coming on line. For instance, eight billion pounds of ethylene capacity is coming on line in 2001—twice the biggest previous increment of new capacity in industry history.

Refiners ran their plants hard for two to three years, but refining margins weakened substantially in March. A number of refineries went into extended maintenance and have been slow to return. The result was a late switch to gasoline, and its inventories are running four to five percent below the extraordinarily low levels of last year. Wholesale spot prices for regular unleaded gasoline spiked from 76 to 96 cents over the past six weeks. Refiners' margins became very strong, giving them a powerful incentive to get facilities back on line and produce more gasoline.

Services. Business services activity continued to weaken in recent weeks, particularly for temporary service firms, where demand has slowed from all types of businesses. One temporary firm reported a 15-20 percent drop in business over the past few weeks. Legal firms also reported softness, with a drop in real estate activity and IPOs; bankruptcies and litigation continue to increase. Demand for transportation services also continued to slow. Railroads, truckers and airlines noted softer sales.

Retail Sales. Retailers reported very weak or negative sales in March. Demand picked up slightly in April, which contacts attributed to Easter sales and better weather. As a result of sluggish sales growth, retailers have reduced their purchases and lowered their expectations for the remainder of the year. Despite sluggish sales, most retailers say inventories are in very good shape, which is helping keep downward pressure off of selling prices. Auto sales are below last year's very high levels, but dealers say sales growth

is expected to be “good.” Demand is particularly weak for domestic and luxury cars but sales of used cars picked up. Inventories remain at high levels.

Financial Services. Credit standards have tightened. Lenders say they are looking at prospects more closely and increasing reserves on existing loans. Loan demand is unchanged to slightly down. Respondents say that business loan usage is changing. In past years, commercial loans were used primarily to finance expansion, but now an increasing number of new loans are being requested to cover operating costs as a result of slower product demand.

Construction and Real Estate. Construction and real estate activity softened over the past six weeks, except in Houston where activity has rebounded in recent months. Demand for nonresidential space is down, particularly from high-technology firms. Firms are reducing costs by consolidating their office space, leading to an increase in subleasing of commercial space. As a result, office space—old and new—is coming on line faster than it can be absorbed. Commercial starts have slowed, according to contacts, and financing has become more difficult. Homebuilders reported slower traffic and sales, except in Houston where home sales rebounded in March. Overall, contacts were less optimistic about the outlook than six weeks ago and have lowered their expectations for growth in activity.

Energy. Energy activity continues to pick up. Domestic drilling has risen above 1200 working rigs. Shortages of equipment and people are restraining the increase in the rig count, according to contacts. The March international rig count was 515 working rigs outside North America, still ten percent below the last peak in December 1997. The exploration outlook is very strong.

Agriculture. High beef prices are helping boost the livestock industry, but farmers continue to face significant production challenges. Moisture levels have improved, but bankers say some farmers have large carryover debt and are unable to qualify for all or any of the debt requested. Limited water and high energy prices are encouraging farmers to plant cotton instead of more profitable crops, such as corn. However, world wide cotton stocks are already high, and prices are relatively low.

TWELFTH DISTRICT – SAN FRANCISCO

Summary

Twelfth District contacts reported continued expansion of the District economy in March and early April, although increased evidence of slowing was observed. Respondents noted less pressure on costs for many non-energy inputs, along with sharp declines in prices for semiconductors. District retailers continue to record weaker than projected sales and noted resistance of consumers to price increases. The energy situation remains critical in the West—respondents expressed concern about escalating energy prices and the threat of supply disruptions in coming months. Higher energy prices have affected production at a few energy-intensive businesses, adding to the more general weakening in the manufacturing sector. Investment spending is being curtailed in most sectors, with the notable exception of the energy sectors. Respondents indicated that commercial real estate is showing signs of softening in markets with concentrations of high-tech manufacturing and Internet services. The agricultural sector continues to be hurt by low prices and an inability to pass along higher energy costs. District respondents noted that the demand for credit has fallen slightly and credit standards have tightened.

Wages and Prices

Twelfth District contacts generally reported stable to weaker prices for many non-energy inputs and consumer products. Reports on labor costs were somewhat mixed. A number of contacts indicated that wages and prices were stable, while others noted continued upward pressure on wages and especially on benefit costs.

Energy costs for businesses and consumers are up sharply, and recently approved electricity rate hikes will push prices up further in coming months. Since the last survey,

respondents reported more frequent examples of higher energy costs being passed along to consumers. The increases often were in the form of energy surcharges added to prices of manufactured goods, charges for freight, and bills for services, including hotel accommodations. In contrast, contacts noted that suppliers of agricultural goods and wood products are not able to pass along higher energy costs to consumers. Respondents reported increased conservation efforts to limit the impact of higher energy prices on overall costs. A small number of contacts either have added or plan to add backup generators to minimize the cost of potential disruptions.

Retail Trade and Services

District retailers continued to experience weak sales in March and early April. Sales at many retailers fell short of projections and ran behind sales for the comparable period last year. Automobile dealers in Idaho are concerned about high inventory levels and sales that dropped below those for the comparable period last year. Retail food and drug sales were increasing more slowly in March and early April than earlier in the year.

District contacts reported that Southern California tourist traffic continued to increase in recent months, although some signs of slowing are evident elsewhere in the region. Respondents from Hawaii noted a slight decline in year-to-date visitor days through February; the softening was attributed to slowing in the national economy and weakening in Asia. Respondents from Las Vegas reported disappointing gaming revenue figures for February.

Manufacturing

District manufacturing conditions have weakened since the last survey, though strength in commercial aviation remained a bright spot. Respondents reported that orders

for semiconductors were off sharply. Since the beginning of the year, semiconductor prices have fallen more than 20 percent and capacity utilization has dropped dramatically. New orders for computers and communications and Internet infrastructure equipment are very weak. Respondents noted that producers in energy intensive sectors, such as aluminum smelters and mills in the Pacific Northwest, are expected to face further curtailments of production in the face of rising energy prices. More generally, there is concern about the threat of energy supply disruptions in coming months. Most respondents noted that supply disruptions would affect production much more than higher energy prices.

District contacts indicated a widespread slowing this year in the pace of business investment spending due to excess capacity and inventories as well as less profit potential in a slowing economy. A number of businesses plan to reduce the growth in spending, while others are cutting their capital investment budgets. Respondents said that many businesses were cutting back expenditures on computers, information processing equipment, and software. Reductions were described as significant or substantial by some respondents. On the other hand, high energy prices are expected to spur investment in oil and natural gas exportation, energy transmission, and electricity generation.

Agriculture and Resource-related Industries

Twelfth District agricultural conditions remain weak. Ranchers are now being squeezed by falling cattle prices. Contacts noted that higher energy costs have driven up costs for some food processors. Higher energy costs also may lead to reductions in acreage planted for irrigated crops. Producers in the agricultural sector also are cutting back investment spending.

Real Estate and Construction

Commercial real estate conditions in the District generally remain sound, though softening was noted in some regions. Contacts reported that commercial real estate market conditions in the Los Angeles Area, Idaho, Hawaii, and Alaska generally remained strong as of early April. Respondents, however, pointed to rising vacancy rates and falling rental rates in the San Francisco Bay Area and the Pacific Northwest. Contacts cited increased availability of subleased office space following the rash of dot-com closings and downsizings as a key factor in the softening of conditions in these markets. In San Francisco, rents are down significantly from recent peaks but remain above year-end 1999 rates.

Residential housing market conditions roughly reflect the pattern evident in the commercial sector. Respondents indicated that some regions were exhibiting some signs of moderation in March. Contacts noted that apartment vacancy rates were rising and rents were falling in the San Francisco Bay Area. A slowdown in residential sales also was recorded in the state of Washington. On the other hand, Hawaii continued to show strength in most residential markets.

Financial Institutions

District financial institutions reported that credit conditions continued to weaken. Contacts indicated that bank loan growth has moderated as lenders have tightened standards and borrowers have become more cautious. Respondents were split on their assessment of recent changes in asset quality, some identifying slight deterioration while others found little evidence of weakening.