For use at 2:00 p.m., E.D.T.
Wednesday
September 22, 1999

Summary of Commentary on ______________________

Current Economic Conditions

by Federal Reserve District

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SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS

BY FEDERAL RESERVE DISTRICT

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SUMMARY[1]

All district economies continue to exhibit overall strength, with most experiencing moderate-to-brisk rates of growth. Retail sales are generally up in most districts, with back-to-school sales meeting or exceeding retailers' expectations in many cases. Vehicle sales remain robust, although some dealers are unable to meet demand for popular models. Industrial activity is on the rise in most parts of the country, with orders and production both up. In some cases, resurgent Asian demand is contributing to this rise in activity. Although commentary from most district reports continues to highlight widespread labor shortages, several districts have noted a slackening in the demand for labor. There are few reports of acceleration in nominal wages and salaries, although some districts note a substantial upswing in the cost of health-care benefits. While price pressures at the consumer level remain mostly calm, numerous districts report significant increases in some materials prices. Home sales and construction remain elevated, but many districts have begun noticing a slowdown. Commercial real estate markets are tight in many districts. Loan demand, except for residential real estate loans, is well-sustained across districts. Credit quality and standards remain unchanged, for the most part. The recent drought has worsened crop and livestock conditions in the East and parts of the Midwest.

Consumer Spending

Most districts report that retail sales are up from their year-ago levels. Back-to-school sales, in particular, either met or exceeded expectations in the Boston, Chicago,

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[1]Prepared at the Federal Reserve Bank of St. Louis and based on information collected before September 13, 1999. This document summarizes comments received from business and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Philadelphia, Richmond and St. Louis districts. The Atlanta district, however, reports declining sales from a year earlier, while the Kansas City and New York districts indicate mixed or flat sales. The San Francisco district notes that back-to-school shoppers remained cautious this year, searching for bargains and delaying purchases until Labor Day sales arrived. Apparel sales have been brisk in the Atlanta, Cleveland, Kansas City, Philadelphia and St. Louis districts, but not in the Chicago district or parts of the New York district. The Minneapolis district reports strong sales of high-end electronics in Minnesota. Hot weather hampered sales of lawn-and-garden goods in the New York, Richmond and St. Louis districts. Most districts report that retailers' inventories are at desired levels, although some contacts in the Cleveland district note that their inventories are a bit lean. On the other hand, some contacts in the Kansas City district believe that their inventories are too high.

Auto sales, particularly of new vehicles, remain strong in most parts of the country. The Cleveland, Dallas, Kansas City and St. Louis districts note substantial gains in auto sales, while the Richmond district reports a weakening of sales, due mostly to hot weather. Consequently, dealer inventories in the Richmond district are up. On the other hand, some dealers in the Cleveland, Philadelphia and St. Louis districts are still having difficulty stocking enough popular models to meet demand; inventories are not a concern for dealers in the Kansas City district.

Manufacturing

Manufacturing activity appears to have accelerated in almost every district. The Richmond district, however, reports some moderation in the rate of growth. The Kansas City district notes that its contacts are experiencing their highest capacity-utilization levels in a year. The Chicago, Cleveland and St. Louis districts report solid demand for steel and other metal products, particularly from the auto industry. The Boston, Dallas and Minneapolis districts note strong demand for semiconductors and computer components. The San Francisco district reports that improving demand from East Asia has boosted orders in the electrical equipment, wood, chemicals, processed food and industrial machinery industries. Industrial machinery production also accelerated in the Atlanta district and rebounded in the Boston district.

The production of apparel appears to be down across the board. Orders for heavy trucks and construction and agricultural equipment have weakened at Chicago district firms. While the tobacco industry in the St. Louis district is experiencing a slackening in domestic demand, tobacco shipments from Richmond district firms remain strong. The commercial aerospace industries in the Atlanta and San Francisco districts report weakening demand.

The Philadelphia district notes that manufacturing inventories are at desired levels. The Atlanta district comments that a maker of batteries and flashlights expects heavy demand around year-end and, therefore, plans to increase its inventory accordingly. Cleveland district contacts report no inventory stockpiling, while San Francisco district contacts have seen their excess inventories drawn down recently. Contacts in the Kansas City district plan to trim inventories soon because they are getting too high.

Labor Markets

For the most part, the theme of this report is unchanged from recent reports: The demand for labor continues to outstrip the readily available supply of labor in most areas. The Atlanta, Chicago, Minneapolis and Philadelphia districts note that tight labor markets remain the norm. Retailers in the Boston, Kansas City and New York districts reported that they cannot find enough staff to fill vacancies. Manufacturers in the Boston and St. Louis districts express the same concern. A couple of districts continue to highlight the construction industry's ongoing labor supply problems, although the number of these reports has lessened somewhat. Demand at temporary employment agencies remains on the upswing in the Boston, Dallas and Richmond districts, while remaining steady in the Cleveland district. In contrast, a few districts have noticed a slight easing of labor market tightness. The Richmond district reports that manufacturing employment and hours have grown at a slower pace than they had previously. The completion of Y2K-compliance work in some industries in the Dallas district has reduced the demand for technology workers, while weakness in the San Francisco district's commercial aircraft industry has led to layoffs at major producers and suppliers.

Wages and Prices

On balance, wage and salary increases remain within the range noted in previous reports. Wages at manufacturing firms are reportedly picking up in the Minneapolis, Philadelphia and Richmond districts, remaining steady in the St. Louis district, and easing somewhat in the Kansas City district. The Boston and Minneapolis districts note that wages at retail establishments are growing between 3 and 5 percent; in the Kansas City district, retailers report feeling increased wage pressures. The Cleveland and Dallas districts note accelerating wage growth, particularly among some classes of temporary workers. The Atlanta and Minneapolis districts report sharp increases in the employer costs of health-care benefits.

The majority of district reports indicate that price pressures at the retail level are not readily apparent. Where they are apparent, they are categorized as temperate. Prices pressures at the wholesale level appear to be somewhat greater. The Chicago, Cleveland and Richmond districts report price increases at manufacturers, with steel makers in the Cleveland district announcing hikes of between 5 and 7 percent. The Atlanta, Cleveland, Kansas City, Philadelphia and Richmond districts all report that higher raw materials costs are evident. The Dallas district adds that construction costs (both labor and materials) are up between 5 and 8 percent so far this year. The San Francisco district, however, notes that prices for manufacturers' inputs have been "stable or declining."

Real Estate and Construction

The consensus across most districts is that while home sales remain elevated, some slowing has recently become apparent in both sales and construction. Home sales have already weakened somewhat in the Atlanta and Chicago districts. The New York district, however, reports that real estate activity in New Jersey is increasingly being hampered by supply constraints—low inventories of existing homes and a shortage of usable land for new construction. The San Francisco district notes that real estate markets in Southern California, the San Francisco Bay Area and Washington's Puget Sound region are robust; elsewhere in the district, they have slowed. Just about all districts cite higher mortgage rates as a primary reason for the recent slowing. Other reasons include rising building costs and market saturation. Many districts are still reporting labor and/or material shortages, which are delaying construction. The

Richmond district, however, notes that fewer complaints about labor or material shortages were received, perhaps signaling an easing in the pace of residential construction. Still, it seems that numbers of sales and new construction permits/starts in most districts are ahead of year-ago levels.

Commercial real estate markets are tight in the Boston and Philadelphia districts, although real estate agents in the Philadelphia district believe that demand there may be peaking. The Cleveland district reports that nonresidential market conditions remain at a high level. Speculative nonresidential building is up in the St. Louis district. Apartment construction is strong in parts of South Dakota because of low vacancy rates.

Banking and Finance

Despite a drop in demand for mortgage and home-refinance loans, lending activity remains relatively strong. Only the Philadelphia and St. Louis districts report weaker overall loan demand. The strength of business lending varies by district, with only the Chicago, Cleveland, New York, Philadelphia and Richmond districts citing growth in the commercial-and-industrial loan category. Consumer lending has strengthened further in the Atlanta, Dallas and Kansas City districts, has weakened in the Philadelphia and St. Louis districts, and has remained unchanged in the Richmond district. The Dallas and Philadelphia districts add that residential real estate lending remains healthy. The Cleveland and St. Louis districts report that competition for deposits is strong, while banks in the Dallas district report steady loan growth. Banks in the Kansas City and New York districts have recently tightened credit standards; banks in other districts report no change in standards. Outside of a concern about agricultural loan performance, credit quality remains good.

Agriculture and Natural Resources

Drought conditions in much of the East and parts of the Midwest have taken their toll on both crops and livestock. The Chicago, Cleveland, Richmond and St. Louis districts all indicate that their corn and soybean crops are in poor-to-fair condition. The Cleveland district notes that the tobacco crop is also suffering. The rice and cotton crops in the St. Louis district are in good condition, though. The San Francisco district reports that unseasonable weather has lowered the quality and yield of many of its grains, fruits and vegetables. In contrast, the Dallas, Kansas City and Minneapolis districts report favorable agricultural conditions, with their corn and soybean crops in good-to-excellent condition and with above-average yields expected.

Livestock in the Cleveland, Dallas and Richmond districts are in poor-to-fair condition. Many farmers in the Cleveland and Richmond districts have begun feeding hay to their herds because of poor pasture conditions. Some farmers in the Cleveland district have even started paring down the sizes of herds. In the Kansas City district, however, low feed costs, stronger cattle prices and increasing profits are leading to a rebuilding of herds.

Strong demand for natural gas has increased prices and drilling activity in the Dallas and Kansas City districts. With the price of oil also on the rise, the number of rigs on-line in the Kansas City district has been rising. In the Minneapolis district, though, the rig count is below year-ago levels.

FIRST DISTRICT – BOSTON

Business activity continues to expand moderately in the First District, although some contacts express more caution as they look forward than has been the case in recent reports. New England retailers indicate their sales grew solidly during the summer months and most manufacturers report single-digit increases in business. Wages are said to be rising in the 2.5 to 5 percent range. Prices may be rising slightly faster, on average, than at the last report, although many prices are said to be flat or down.

Retail

Most retail contacts report solid growth that met expectations during the summer (June through August). Discount retailers indicate their back-to-school period was stronger than expected, while consumer appliance retailers cite growth that was slower than expected.

Employment is said to be holding steady. Every sector reports very tight labor markets, but for the most part, they are not constraining retailers' operations. One exception is the tourist industry, which was unable to find the usual seasonal help for the summer season. Retailers mostly say that base wages are increasing at a 3 to 5 percent rate, but overall compensation is increasing faster because performance-based incentives raise payroll in line with sales. Only in the tourist industry are wage premiums being offered to attract labor.

Respondents say that consumer prices are holding steady, with two exceptions. Hotel room rates are reported to be rising at a 5 percent rate and discount retailers engaged in less price discounting than usual during the back-to-school season. Supplier prices are also said to be holding steady.

Contacts report that modest capital expansions are planned over the next six months. Looking forward, respondents are more cautious in their outlook than they have been in recent reports, though still quite positive. Most expect continued strong growth through the remainder of the year, with a growth slowdown arriving in the first quarter of 2000.

Manufacturing and Related Services

Most First District manufacturing contacts report that recent business is up relative to a year ago, typically at a single-digit rate. Demand in the semiconductor, furniture, and home renovation industries is rising much more sharply than the norm. Producers of industrial machinery and parts indicate that sales remained sluggish in the second quarter but now seem to be improving. Sales of apparel textiles and supplies used by steel foundries continue to decline as a result of import competition, as do sales to the oil and gas drilling industry. Makers of selected consumer items report negative impacts as some of their retail chain customers lose market share.

Manufacturers indicate mostly small changes in input costs. In contrast with previous reports, more contacts report increases than decreases. Selling prices are mostly flat or up a little from a year ago. However, some industrial machinery and office equipment prices are still falling. A seafood processor and a furniture maker, who raised their prices early in the year, have kept them stable in recent months.

Most contacts report fairly steady headcounts. Average pay increases remain in the range of 2.5 to 5 percent, but respondents frequently mention accelerating costs for health insurance. Several companies say that they experienced unusual difficulties hiring and/or retaining production workers; one of these contacts indicates that the resulting wage pressures are problematic and another foresees higher pay increases after the current union contract expires. Otherwise, complaints about labor shortages are largely unchanged. To some degree, this is attributed to manufacturers' continuing efforts to introduce capital improvements that reduce either labor requirements or non-labor costs.

Most manufacturers are fairly upbeat about future trends, citing continued positive momentum in the U.S. economy or their own success in controlling costs. Less than one-quarter of respondents expect to increase inventories appreciably as a hedge against Y2K-related delivery problems, although some others plan very selective increases. Mostly the ramp-up will entail foreign items, especially from Asian suppliers.

Temporary Employment

Temporary employment firms continue to expand in the First District; they are seeing increased business and opening new locations. All contacts report growth in overall revenue from a year earlier, ranging from "slightly up" to 20 percent. Tight labor markets are nonetheless constraining growth, with unfilled requisitions thought to represent substantial amounts of unattained revenue. Supply shortages persist for workers of all skill levels and firms have been forced to concentrate more effort on recruiting.

Wages are rising modestly, on average, though firms cite double-digit increases for workers in more technical areas. For the most part, contacts relate that prices are rising in line with wages, yielding steady profit margins. Outlooks are extremely positive. Contacts have high expectations for the future performance of New England's staffing industry and most predict that demand will grow unabated.

Commercial Real Estate

The commercial real estate market in New England remains strong. Most contacts report rising prices and rental rates, and steady or declining vacancy rates. As in the past, the Boston office market is particularly strong, with downtown vacancy rates at 5 to 6 percent and rental rates rising steadily. Boston suburbs have higher vacancy rates and lower rental rates than downtown, but demand from high-tech companies remains strong. Vacancies are expected to remain low in Boston even after some planned office buildings are completed, because most of the new space is pre-leased.

The rest of New England is also doing well. Although Hartford still reports the highest vacancy rates in the region, contacts say office vacancy rates have declined to around 15 percent and rental rates are up 3 to 4 percent from a year earlier. Contacts in New Hampshire and Providence report strong demand and rising rental rates for industrial and office space. Maine respondents report no change in vacancy or rental rates. Most contacts anticipate market conditions to remain strong.

Nonbank Financial Services-Insurance

All but one respondent at insurance companies reports ongoing or planned reductions in employment. These cutbacks are mostly associated with mergers and restructurings; some of them are being achieved through use of early retirement programs. Contacts note continued tightness of the labor market in the information technology and investments areas.

SECOND DISTRICT--NEW YORK

The District's economy continues to expand at a moderate pace, with an acceleration in manufacturing activity largely offset by some slowing in retail sales. While there has been some acceleration in input prices, there has been no broad-based increase in consumer price inflation. Retailers report that sales were slightly below plan, on balance, in August, but picked up again in early September; most report less discounting than usual thus far in the third quarter. Housing demand remains strong, especially in the New York City area, but activity appears to be limited by supply constraints—low inventories of both new and existing homes and a shortage of usable land appear to be constraining unit sales while boosting prices. Manhattan's office market appears to have stabilized.

Regional purchasing managers report that manufacturing activity accelerated in August, while price pressures intensified. Banks report steady loan demand, further tightening in credit standards, and continued improvement in delinquency rates.

Consumer Spending

Major retail chains report that sales were mixed but, on balance, slightly below plan in August; however, most report some pickup in early September. Sales performance varied substantially, with year-over-year same store sales changes ranging from -2 percent to +10 percent. While some retailers attribute August's weakness to sluggish sales of hard lines, others indicate that apparel sales were particularly soft. Most note that hot dry weather hurt sales of lawn and garden merchandise. However, an industry contact in New Jersey describes the general sales environment as "gangbusters." Overall, New York State's tax-free week (on moderately-priced apparel and footwear) has had no discernible effect on sales—particularly since a similar tax reprieve was offered during the same week last year.

Inventories were said to be in good shape at the end of August—even among those with disappointing sales. One major discount chain, where sales have been persistently strong, reports that inventories are a bit lean, especially if the current sales pace continues. While selling (ticket) prices and merchandise costs have been stable, most contacts report substantially less discounting than usual during the third quarter. Most retail contacts continue to report widespread labor shortages, but no significant acceleration in wages. However, one large chain reports that it is giving significant increases to workers at the low end of the pay scale. Also, in response to labor shortages, a number of New Jersey retailers are said to be involved in welfare-to-work programs to recruit and train entry-level workers.

Construction & Real Estate

While housing markets generally remain quite strong, there are some signs that activity is increasingly hampered by supply constraints—mainly low inventories of existing homes and a shortage of usable land. On a seasonally-adjusted basis, single-family permits in New York and New Jersey continued to climb in July, rising 11 percent above year-earlier levels. However, multi-family permits retreated sharply, following a surge in June—they were down 30 percent from a year ago in July but still up by a hefty 33 percent year-to-date. Separately, homebuilders in New Jersey indicate that unit sales are running 15-20 percent ahead of a year ago and that prices are up roughly 10 percent. Nevertheless, an industry expert anticipates a drop-off in building activity in 2000, because builders are running out of approved land. Currently, due to a dearth of inventory, the waiting time for new homes—as measured by guaranteed delivery dates—has risen to an unprecedented 11 months.

The market for existing homes is also tight. A large New York City realtor describes current market conditions as "unbelievably strong" and indicates that both unit sales and prices of prime-area co-ops and condos are running 10-15 percent ahead of a year ago. The sharpest price increases are for high-end properties, and there are continued reports of bidding wars. Also, homes remain on the market for an unusually short time. Statewide, single-family existing home sales slowed in July—they were virtually unchanged from a year earlier, while prices rose by 5 percent, in line with recent trends. In the New York City area, prices continue to rise briskly, but unit sales are below year-ago levels. This is widely attributed to a dearth of single-family homes on the market.

Manhattan's commercial real estate market appears to have stabilized, as office availability rates were little changed in July, after falling to cyclical lows at the end of June. Midtown's rate edged up from 7.2 percent to 7.3 percent, while Downtown's rate decreased from 11.6 percent to 11.4 percent. Office rents, which had surged more than 20 percent in 1998, have risen only modestly so far this year.

Other Business Activity

Regional purchasing managers' surveys suggest some acceleration in manufacturing-sector growth in August, along with increasingly widespread increases in input prices. Buffalo purchasers indicate a strong pickup in production and new orders in August, along with an upturn in employment levels and further increases in commodity prices. Those in the New York City area report a further acceleration in manufacturing activity in August—following relatively brisk growth in both June and July—along with a sharp acceleration in input prices.

Hotel room rates remained little changed in July—after posting double-digit gains in each of the preceding four years, they are running just 2.5 percent ahead of a year ago in 1999. In contrast, a major newspaper raised its local daily newsstand price by 25 percent in early September.

Financial Developments

Small and medium sized banks in the District report that overall loan demand was steady over the past two months. Bankers reported stronger demand for commercial and industrial loans, but weaker demand for residential mortgages. Refinancing activity also slowed sharply, with almost two-thirds of the bankers surveyed reporting declines in activity. On the supply side, bankers report some further tightening in their credit standards. Bankers reported raising rates on all types of loans. Four of five lenders reported higher rates on residential mortgages, and three of four indicated higher commercial loan rates. Deposit rates also rose, with 60 percent of bankers reporting increases. Delinquency rates continued to fall in all sectors, most notably in commercial and industrial financing.

THIRD DISTRICT – PHILADELPHIA

Business conditions in the Third District were improving moderately in September. Manufacturing activity was advancing. Retail sales rose for the back-to-school period, although price discounting appeared to increase. Auto dealers said sales have been steady and at a good pace. Bank lending has been growing, mainly because of increases in credit extended to small businesses, but overall loan growth has been slow. Commercial and residential real estate markets are generally strong, but some signs of easing have been observed in demand for office space and sales of existing homes.

Expectations are positive but modest. Manufacturers forecast continued growth near the moderate pace set in recent months. Retailers anticipate steady or slightly growing sales. Bankers expect some gains in business and consumer lending but anticipate an easing in real estate lending. Contacts in real estate and construction have mixed views. Most forecast steady conditions, but some believe residential and commercial markets will soften, especially if interest rates move up.

MANUFACTURING

Third District manufacturers contacted in early September reported continued moderate growth. Gains in shipments and orders were noted in all the major goods-producing sectors in the region. Production capacity at area plants appeared to be adequate to meet the modest increase in demand: delivery times and employee working hours declined slightly from a month ago, and order backlogs fell. Area manufacturers generally said both input and output prices have been steady; however, there were reports of higher prices for some raw materials, especially forest products, farm products, and chemicals used in making plastic products. Several firms noted persistent labor shortages and rising wages for both skilled and unskilled workers.

Looking ahead, the region's manufacturers foresee growth in shipments and orders continuing at about the current rate. On balance, they expect to step up capital spending in the next six months but keep inventories at current levels. Managers at area plants expect to boost employment somewhat, but they are not scheduling increases in working hours.

RETAIL

Retail sales in the region picked up in the second half of August and the beginning of September. In addition to good sales of the usual back-to-school merchandise, merchants reported strong sales of women's apparel. Store executives said the recent sales rate has been in line with their plans, but some noted that they had to implement unscheduled price reductions to meet their sales goals. Inventory levels were generally described as appropriate for the current and anticipated rate of sales. Most of the merchants contacted for this report expect sales during the rest of the fall to be steady or increase slightly from the same period last year.

Auto dealers reported a steady rate of sales in recent weeks. Luxury sedans and light trucks have been selling well, but sales of small cars have lagged. Manufacturers' incentives remain widespread. Inventories were said to be at desired levels for most dealers, although shortages of some popular models were reported.

FINANCE

Lending officers at Third District commercial banks generally reported slow growth in loan volume outstanding during August and early September. Loans to businesses were said to be moving up at a good pace, spurred by increased lending to small and medium-size firms. In contrast, consumer loan demand was described as slack. Residential real estate lending has been healthy. Reports on commercial real estate lending were mixed. Some banks indicated that they have recently increased lending to home builders and property developers, but several banks have begun to limit real estate lending because of concerns that property values may have peaked and that property owners cannot support additional indebtedness.

Bankers in the region expect business and consumer lending to grow moderately for the rest of the year. Business expansion plans and consumer confidence levels are underpinning this growth. On balance, bankers anticipate some slowing in real estate lending as more cautious lending criteria are applied.

REAL ESTATE AND CONSTRUCTION

Commercial real estate markets in the District remain tight. Recent estimates by property managers put the office vacancy rate at around 10 percent for the region as a whole, down 1 percentage point from the end of 1998. In some parts of the region, the vacancy rate is even lower. Leasing activity has been strong and rental rates have increased around 10 percent in some markets since the beginning of the year, but overall, recent construction has made more space available and helped to restrain rent increases. Demand for industrial space continues to grow, as does construction. Industrial vacancy rates have declined, but rents have been mainly unchanged except for high technology buildings, which have had significant increases in rental rates.

Although most contacts in commercial property markets expect conditions to remain healthy through the rest of this year and next, there are some signs that demand for space may be peaking. Rents have leveled off in some areas where they had been rising. Several large corporations have recently negotiated sale/leaseback contracts. Commercial real estate agents say this is an indication that owners of buildings believe their values will level off or decline.

Home builders in the Third District generally reported a steady rate of sales in recent weeks. For some builders, labor shortages, especially of carpenters, have resulted in construction delays. Building materials appear to be in adequate supply, but prices have been rising. Builders have been raising selling prices in an effort to maintain profit margins. Real estate agents said sales of existing homes have eased from the pace set in the summer but remain at a good level. Increases in mortgage interest rates have damped sales activity somewhat, more noticeably for homes in the lower price ranges. Some real estate agents noted a recent easing in the rate at which selling prices have been appreciating, which they also attribute to the rise in mortgage costs. These contacts said home sales will decline further if mortgage interest rates continue to climb.

FOURTH DISTRICT - CLEVELAND

General Business Conditions and Labor Markets

The Fourth District economy shows sustained strength in spending and production, labor markets remain tight, and wage growth has accelerated. While greater price pressures are noted at the manufacturing level, retailers continue to see stable prices.

District temporary employment agencies indicate steady demand, overall, and report continued difficulty finding and retaining qualified workers. While there appears to have been a decline in the demand for general labor, such as entry level clerical and assembly line production workers, agencies note a sharp increase in orders for legal and executive secretaries, account executives, bookkeepers, engineers, and information technology specialists.

Tight labor markets have prompted temporary help agencies to raise wages. For some, wage growth has been substantial, as in the case of administrative assistants, who have seen hourly wages rise by about 20% since this time last year.

Union sources also note a shortage of skilled workers, and higher training and development costs are reported for steel workers. Wage growth has accelerated for virtually every industry, with growth rates ranging from about 3-5%.

Construction

District builders are seeing strong third quarter sales, although some home builders note a modest slowdown from the exceptionally high sales levels reported earlier this year. Home builders are still reporting material shortages, and cost pressures are growing in a few key areas, like drywall, lumber, and insulation. Overall, residential building material prices are estimated to have increased on the order of 3-4% during the year. Similar increases are reported for the wages of residential construction workers. Nevertheless, the profits of residential builders are thought to be good, and rising, as new home price increases outpace the rise in building costs.

Reports from commercial contractors are more mixed than for their residential counterparts, although most respondents report that conditions are holding steady at a relatively high level. Materials shortages and rising cost pressures have been seen, and some commercial builders report rationing by drywall distributors. Other commercial builders report a higher backlog among subcontractors.

Agriculture

The drought has seriously affected agriculture in the southern reaches of the Fourth District. Yields from the District's corn and soybean harvest are expected to vary widely across the District. Some areas of northern Ohio are reporting yields that are slightly above average, while in southern Ohio and Kentucky, the corn crop is less than one half its 1998 harvest. There are reports that some farmers in eastern Kentucky are cutting corn and soybean crops for cattle feed because of poor crop conditions, lack of adequate cattle forage, and low crop prices.

Recent rains in some regions of the District have improved pasture lands, but grazing conditions are still poor. Farmers in southern Ohio and eastern Kentucky are feeding hay to their livestock, and some farmers are paring down their herds. Tobacco is also suffering from the drought, and some areas of eastern Kentucky are expected to show yields 30-40% below normal.

Industrial Activity

Manufacturing activity appears to have improved somewhat since July. New orders growth is generally reported to have picked up in August and production continues to rise. Commodity prices are rising after having shown no significant change over much of the year; higher prices are seen for a variety of metals, plastics, and paper products.

Foreign steel imports remain high. Still, the demand for steel is high due to strong orders in the auto and construction industries. Several steel companies in the District have announced 5-7% price increases on stainless steel products and many have reduced their price discounting, although prices are still low relative to their peaks of a few years ago. Industry sources report no inventory stockpiling in anticipation of a Y2K disruption.

Consumer Spending

Retail sales continue to show exceptional strength. Sales of apparel goods are particularly strong. District retailers expect strong sales to continue into the fourth quarter holiday shopping season. Retail inventories are low. Moreover, some retailers plan to accelerate their year-end inventory stocks as a Y2K precaution. The demand for retail sales space in the Fourth District is reported to be very high. Almost all retail contacts reported that they have recently expanded their outlets or anticipate opening new stores soon.

Sales of new vehicles remain brisk. Most contacts report light or insufficient inventory due to the strength of this summer's sales, although inventory positions appear to have improved with the arrival of the new model year. Dealers anticipate strong sales for the remainder of 1999.

Banking and Finance

Lending activity in the District is steady for both commercial and consumer loans, with commercial loans holding at a high level. Mortgage refinancing is down considerably; one large bank reported that refinancing is now down to 15% of its mortgage business after accounting for about half of its business in 1998.

The rate for loan delinquencies is holding at very low levels. Credit quality is good and no change in credit standards is reported. The spread between borrowing and lending rates is narrowing in accordance with the observed long-term trend. Competition for borrowers is still fierce, but some sources report an easing from a year ago. No identifiable Y2K-related change in customer deposit behavior has been observed.

FIFTH DISTRICT - RICHMOND

Overview: Fifth District economic growth slipped a notch in recent weeks from the brisk pace described in our last report. Retailers said that sales growth was sluggish during much of August, but picked up noticeably late in the month and in early September. Services providers reported moderately lower sales throughout the period. In contrast, District manufacturers recorded higher shipments and new orders, although the rates of increase were not as robust as those reported in July. At financial institutions, commercial and consumer lending remained strong, but mortgage lending tapered off as interest rates on mortgages rose. Real estate activity remained solid, but some signs of slowing growth emerged, particularly in Virginia and West Virginia. Wages accelerated in manufacturing and services, and advanced at a slower pace in retail. Prices of goods and services changed little. In agriculture, Hurricane Dennis brought much needed rain to the area, but drought conditions remain in the southern portion of the District.

Retail: Retail revenue growth slowed in the first three weeks of August as sales of big-ticket items, particularly automobiles, weakened. A Norfolk, Va., automobile dealer said that exceptionally hot weather was partly to blame, remarking, "When it's this hot it's hard to get people on the lot." Shopper traffic in stores throughout the District slowed considerably and inventories expanded. In late August and early September, however, shoppers stocked up on back-to-school apparel and supplies, boosting sales above last year's levels for the period. Retailers reported little change in employment since our last report; wage growth slowed and retail prices rose only modestly. Looking forward, retailers trimmed their optimism regarding sales in coming months.

Services: Revenues at service firms fell since our last report; demand for business and real estate related services was particularly sluggish. Although most services providers left staffing levels unchanged in August, more employers raised wages to retain workers. A contact at an automotive repair shop in Raleigh, N.C., for example, noted, "If I don't pay up, my workers are going to leave: it's as simple as that." Prices of services edged higher and most contacts looked for only modest price increases in coming months.

Manufacturing: District manufacturing activity grew at a more moderate rate since our last report, with some pockets of weakness still evident. Shipments and new orders both expanded in August, but at slower rates than in July. Manufacturers of food, tobacco, and industrial machinery products recorded particularly strong increases in shipments. An industrial machinery producer in North Carolina said that manufacturing activity had "picked up" at his plant and reported that he was starting to see substantial price increases from some vendors. On the other hand, textile mills continued to report overcapacity and plant closings. In addition, some manufacturers were expecting housing markets to slow; a North Carolina furniture maker, for example, said that because of the anticipated slowdown, his company recently lowered its estimates for next year's sales and profits. Manufacturing employment and the average workweek grew at a slower pace, but wages accelerated. Prices for manufactured goods moved slightly higher.

Finance: District bankers reported that commercial and consumer loan demand remained strong in August, but demand for home mortgages slowed considerably. An expanding regional economy continued to drive commercial lending growth and prospects for future commercial loans remained bright; several lenders noted that they had "good deals in the pipeline." Consumer lending growth was little changed despite higher interest rates. In the words of a Rocky Mount, N.C., banker, "Rates on consumer loans have gone up but customers are willing to pay." Borrowers appeared to be less sanguine, however, about rising home mortgage rates. Higher mortgage rates and, in some cases, higher home prices, slowed mortgage lending in August. A Charlottesville, Va., banker described mortgage lending there as "dead in the water" because fewer borrowers could afford homes at prevailing interest rates and home prices.

Real Estate: Residential real estate markets have been mixed in recent weeks: while several "hot" markets persisted in the District, others showed signs of wilting. A realtor in Washington, D.C., reported "tremendous activity" driven, in part, by renovation of older neighborhoods. Realtors said that it continued to be a sellers' market in Richmond, Va., with homeowners routinely receiving offers above asking prices in choice neighborhoods. In Roanoke, Va., and Virginia Beach, however, sales dipped in August. Realtors in West Virginia reported lower sales prices and volume declines beyond the normal seasonal slowing. While homebuilders throughout the District generally indicated little change in the number of building permits issued in recent weeks, there were fewer complaints regarding shortages of labor and materials, possibly suggesting some easing in the pace of residential real estate activity.

Realtors also reported some easing in commercial real estate markets in Virginia and West Virginia, and no major changes in markets in Washington, D.C., and Maryland. In Richmond, Va., however, the market for Class A office space was tighter, especially in suburban areas. In North Carolina, realtors said there was a slight slowing of growth in leasing activity. In Charlotte, new construction activity returned to a more normal rate after a burst of activity in the first half of this year. South Carolina realtors, in general, noted only a slight increase in leasing and a little absorption of vacancies. In contrast, a Columbia, S.C., realtor said that real estate markets in that area were more upbeat; in his words, "humming along."

Tourism: District tourist activity generally strengthened in August, but was weaker in coastal areas in September as Hurricane Dennis brought high winds and heavy rain to the region. Bookings for the Labor Day weekend were sharply lower in resort areas bearing the brunt of the storm, including Virginia Beach and the Outer Banks of North Carolina. Extensive property damage and beach erosion were reported in both areas. However, tourism in the District's northern coastal towns, such as Ocean City, Md., was little affected by the storm; a contact at a boardwalk business in Ocean City reported a record turnout for the holiday weekend. Looking ahead six months, most District contacts expected tourist activity to remain good.

Temporary Employment: Demand for temporary employment remained brisk across the Fifth District in recent weeks. Manufacturing and technology firms appeared to have the biggest appetites for temporary workers while hiring requests from retail firms were sluggish. A contact in Columbia, S.C., said the hiring scene was similar to last year except now manufacturing companies are "back in the game." Finding quality workers is still the biggest challenge for employment agencies, especially since many firms have been reluctant to increase wages substantially. Wage increases are expected to continue to be modest over the next six months. Employment agents reported that District firms plan to add workers this fall, but at a slightly slower pace than last year.

Agriculture: Cooler temperatures and rains from Hurricane Dennis in early September brought relief to parched Fifth District farmland in some areas. Soil moisture levels are now much closer to normal in many areas of North Carolina and Virginia, although more rain is needed to replenish soil moisture and ground water in Maryland, South Carolina, and West Virginia. The rain boosted Virginia's hay crop and may enable more of the crop to be stockpiled for feed this winter, lessening an anticipated shortfall. In contrast, the rains came too late to improve low corn yields, but did raise yields on some late-planted soybeans. In South Carolina, livestock operators continued to feed their animals hay where pastures are dormant, and in West Virginia, farmers hauled water for livestock in areas where wells have dried up.

SIXTH DISTRICT – ATLANTA

Summary: Reports from contacts throughout the Southeast indicate that the District economy is operating at a very high level and continues its moderate pace of expansion. Retailers report sales increases compared with last year, and the tourism and hospitality sector continues to post healthy numbers. The pace of District single-family construction in August was flat compared with July, and new home sales have weakened, but nonresidential construction is slightly ahead of a year ago. Manufacturing activity has been mixed recently, while financial activity continues to expand throughout the District. Labor markets remain tight, and despite increases in some sectors prices are mostly stable.

Consumer Spending: Most District retailers reported that sales during July were up slightly to significantly compared with last year. However, sales weakened in August on a year-over-year basis. Many retailers attributed the falloff in sales to an early school start, which shifted purchases into July. The lone exception was Florida, where retailers received a nine-day sales tax moratorium, which boosted sales in August. Recently, the strongest sellers have been women's apparel, children's apparel and shoes. Most merchants expect third and fourth-quarter sales to be modestly higher than last year's.

Construction: The pace of District single-family construction in August was similar to July, but new home sales weakened notably. Close to two-thirds of the builders contacted said that new home sales were flat to down slightly in August compared with last year. Most contacts report that home inventories are consistent with sales, except in a few markets where inventories are deemed too low. According to builders' reports, third-quarter construction levels will be generally flat, while

Realtors expect home sales to be flat to slightly up compared with last year. A slight majority of builders expect new home construction in 1999 to exceed 1998 levels.

The pace of District nonresidential construction is slightly ahead of a year ago but varied significantly across the different states in the District. Contacts in Florida, Georgia, and Tennessee report construction is moderately above last year's levels, while in Alabama, Louisiana, and Mississippi construction is seen at below year-ago levels. Office, industrial, and retail markets in the region generally remain balanced. The pace of District multifamily construction remains similar to our last report, up modestly from a year ago.

Manufacturing: Factory developments are varied among sectors. A machinery producer notes increasing new orders and is adding to payrolls and lengthening the workweek. Production is rising for a manufacturer of industrial chemicals. A firm that makes batteries, flashlights, and other emergency items expects hoarding as year-end approaches and has plans to step up production. Shipbuilding in Louisiana is expected to get a boost from the merger of Avondale Industries with Litton Industries. Less positively, two major aerospace companies in Palm Beach, Florida, have announced layoffs amounting to 3,300 jobs by this time next year. Announcements of apparel plant closings continue to plague the District. The latest shutdown of a Georgia apparel plant will affect over 300 workers, but the workers are not expected to remain unemployed for long. The area's labor markets are tight; a job fair for plant employees attracted over 30 area employers.

Tourism and Business Travel: The tourism and hospitality sector continues to post healthy growth. International passenger traffic to Orlando International Airport has increased by double-digit percentages from last year. Visitors from the United Kingdom accounted for the major growth in international traffic. Gambling tax revenues in Mississippi are up 12 percent for fiscal 1998-1999 over the previous fiscal year, and revenues are expected to rise as recently announced casinos come on line.

Financial: Overall loan demand continues to expand at a moderate rate throughout the District. Consumer and automobile lending remain very strong, while commercial lending has been slowing somewhat. Mortgage and refinancing loan demand have continued to slow, mirroring the pullback in housing activity noted previously. Banking contacts around the District report that credit quality is good and bankruptcies have continued to abate.

Wages and Prices: Continuing tight labor markets exist in the District, but reports of accelerating wage pressures are scattered. Contacts in Atlanta and Nashville say that qualified clerical and sales customer-service staff are becoming increasingly more difficult to find and retain. Help wanted advertising in Nashville papers is up by 50 percent from a year ago, and for the first time in 15 years, staffing companies are running adds soliciting employees for clients. The Mississippi Gulf Coast business community is reportedly planning to hold job fairs outside the state as a means to deal with the labor shortage.

Prices remain generally stable, but more reports than in recent Beige Books indicate increases. Florida contacts indicate that some import prices are beginning to firm as Asian markets recover. Other contacts report that in some parts of the District health insurance and pharmaceutical prices are rising at double-digit rates. One contact notes that the cost of raw materials for chemical producers is rising because of increasing prices of petroleum based feedstock. Although the shortage of building material in parts of the District has been alleviated, earlier price increases appear to be holding.

SEVENTH DISTRICT—CHICAGO

Summary. The Seventh District economy continued to expand moderately in August and early September, despite some slowing in residential housing activity. Consumer spending remained strong in the region and was in line with most retailers' expectations. Overall construction activity remained robust despite a modest softening in the residential segment. Manufacturing activity appeared to be picking up, led by exceptional demand for light vehicles. Overall lending activity was brisk despite the anticipated softening in residential mortgage demand. The District's labor markets were again tighter than the nation as a whole, but there were few new signs of intensifying pressure on wages. Crop conditions deteriorated in Illinois, Indiana, and Michigan, but remained steady in Iowa and Wisconsin. Hog and grain prices increased, yet remained at low levels.

Consumer spending. Merchants indicated that overall retail sales in August and early September were good and in line with their expectations, with "back-to-school" sales performing well. Sales of "hard goods"—appliances, furniture, lawn and garden equipment—were reportedly brisk, while sales of "soft goods" were mixed. Most general merchandisers reported slightly soft sales of apparel, but some discounters indicated that apparel sales were strong, particularly women's. Several retailers reported that sales of sporting goods were very soft. Retail inventories were generally in line with sales expectations and there were no reports of extraordinary promotional activities. Casual dining was reportedly strong in the District, with one contact reporting that total receipts in the July-to-early September period were up more from a year ago than gains seen in the first half of the year. Reports from a large auto group suggested that the strength in light vehicle sales in the District mirrored that at the national level in August; service sales, which are typically slow in late summer, were also strong. Upward pressure on retail prices remained generally subdued, but some contacts indicated that increased costs for labor and other inputs were squeezing profit margins.

Construction/real estate. Overall construction activity appeared to slow somewhat in the District, largely as a result of softening in the residential segment. Sales of new and existing homes slowed in August, with many contacts citing increasing mortgage interest rates as a major contributing factor. Many contacts, however, also indicated that the market has been so good for so long that some slowing was inevitable and, perhaps, even welcomed. Despite slowing residential sales, most contacts felt that the market remained strong and that fundamentals remain good for continued strength. Builders continued to report that labor shortages persisted, particularly for skilled workers, and that lumber and drywall were also in short supply. Conditions in the business construction/real estate segment changed little, if at all, from our last report, with no new signs of slowing.

Manufacturing. Manufacturing activity appeared to gain some momentum in August and early September, even as softness persisted in some industry segments. As in our last report, production of light vehicles led the way. Light vehicles were "selling like hotcakes," according to one contact, a phenomenon that some industry analysts were at a loss to explain. While conditions remained favorable for light vehicle sales, one contact expressed reservations about whether such strong sales levels could be sustained. Automakers remained very aggressive on pricing, with incentives being offered on some models where previously there had been none. New orders for heavy trucks softened somewhat in recent weeks, but production is booked through the first quarter of 2000. One industry analyst indicated that a slowdown would be welcomed, allowing some manufacturers to perform maintenance on equipment that had been running virtually nonstop. Orders for construction equipment were again soft and inventories were reported to be building slightly. Production of agricultural equipment continued to slow as new orders remained soft and producers worked down excessive inventories. Steel production picked up, with capacity utilization running at approximately 90 percent, and some producers' order books are filled through the end of the year. Steel producers are benefiting in part from improving markets abroad and slower imports. Output prices increased modestly for some manufacturers, most notably for steel and wallboard, where the industry continued to run near capacity.

Banking/finance. Overall lending activity remained robust in recent weeks, despite a noticeable decrease in residential mortgage activity. Household loan demand softened as the effects of higher mortgage interest rates set in. Refinancing activity, which had slowed considerably earlier in the summer, softened even further in August. New mortgage applications, while "not falling off a cliff," also showed some signs of easing according to most contacts. At the same time, business lending activity remained strong and new applications showed no signs of slowing. One banker attributed the strength in business lending to very good economic performance and prospects. There were no reported changes in either standards or terms for commercial loans. At the same time, the quality of agricultural loans remained a concern for some District lenders. One banker noted increased competition from nonbank sources in some commercial lending segments. Banks have been offering higher interest rates on some deposit products to ensure liquidity in the case of increased demand for cash that may result from Y2K concerns in the fourth quarter. The consensus among our contacts, however, was that Y2K is not so much a computer problem as it is a public perception problem.

Labor markets. Labor markets in the Midwest remained much tighter than the nation as a whole as worker shortages continued to plague most industries. Unemployment rates ticked down in July, and claims for unemployment insurance were running below year-ago levels through August. According to contacts, worker shortages were again widespread but appeared to be most severe in construction and information technology occupations. One contact in casual dining indicated that worker shortages have led to increased overtime for their employees and that productivity growth had not been keeping pace with the increased labor costs. While reports of increasing wages at the upper and lower ends of the wage scale continued, there were no new reports of intensifying general wage pressures. Many contacts noted increased use of non-wage incentives (such as casual dress and flex-time scheduling) to slow the rate of employee turnover, which had been increasing recently.

Agriculture. Hog, corn, and soybean prices increased during August, but remained at low levels. Milk prices also increased, buoyed by strengthening cheese prices. Crop conditions were mixed among District states in early September. Timely rainfall kept conditions quite favorable in most of Iowa and Wisconsin during August, while the condition of the corn and soybean crops deteriorated in Indiana, Illinois, and Michigan as a result of dry weather that depleted soil moisture reserves. Nonetheless, the USDA's September projection for corn production in District states was little changed from the prior month, while that for soybeans was raised slightly. A large grain processor announced in early September that it wanted suppliers to segregate crops containing genetically-modified material from conventional crops, raising concerns among District farmers that they may be forced to accept lower prices for some of their corn and soybeans this fall.

EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy continues to exhibit strong growth. Retailers report strong back-to-school sales and expect robust sales to continue through year-end. Manufacturers are still reporting strong growth despite continuing to have difficulties filling vacant positions. Tight labor markets aside, a recent employment survey shows that more firms plan to hire additional workers this fall than did last fall. Home sales in the District remain strong, although the pace of growth of new construction has waned a bit. Credit conditions at District banks have not changed over the past few months. Drought-like conditions are affecting many of the District's crops, particularly corn and soybeans.

Consumer Spending

District contacts report that retail sales were up on average between 7 and 8 percent in July and August from a year earlier. Almost all reported that back-to-school sales either met or exceeded expectations, with apparel being a very strong seller. The recent hot and dry weather, however, hampered sales of lawn-and-garden supplies. Contacts remain very optimistic that sales during the upcoming holiday season will be strong.

Car dealers report relatively strong year-over-year sales gains in July and August—in many cases, up more than 10 percent. The demand for pickup trucks and sport-utility vehicles continues to outstrip the supply, hampering some dealers' sales. While vehicle prices, for the most part, remain unchanged, values of rebates have recently increased somewhat. Dealers remain optimistic about fourth-quarter sales, assuming they can get the inventory to meet the anticipated demand.

Manufacturing and Other Business Activity

District contacts report healthy manufacturing conditions. Strong growth was reported by metal-products manufacturers and automobile producers. Many firms, especially in the manufacturing, construction and trucking industries, are still experiencing difficulty filling vacant positions, which continues to hamper production. To address this problem, some communities have set up committees—such as the "Construction Industry Advisory Group" in Kentucky—to try to attract qualified workers to certain areas and match them with job openings. District contacts still report no unusual upward wage pressures, however.

Several firms are planning to expand or move to the District. Four firms, for example, chose to expand or move to the Louisville and Memphis areas because of their accessibility to the FedEx and UPS hubs. All told, these firms will create nearly 2,000 jobs. A scattering of downsizings has also been reported. Philip Morris eliminated another 300 jobs, as domestic demand for tobacco products falls, and GE has cut employees from its refrigerator and laundry divisions. Several sources, however, believe that other firms will quickly absorb many of these workers. Some contacts reported production suspensions due to energy conservation days during the recent hot weather.

Employment Outlook

According to Manpower's latest employment outlook survey, employment growth in the District's four major cities is expected to be greater than it was a year ago. On average, 35 percent of firms surveyed in the Little Rock, Louisville, Memphis and St. Louis regions plan to increase their employment this fall. One year ago, only 25 percent of firms surveyed expected to increase their employment. Employment expectations rose the most in St. Louis and Memphis. The share of firms planning to reduce employment this fall is small and virtually unchanged from a year ago.

Real Estate and Construction

Home sales remain strong throughout the District, with many real estate agents optimistic that sales will continue to thrive. Year-to-date residential building permits are above their year-earlier levels in almost all District metropolitan areas, although the rates of growth appear to have moderated somewhat. Monthly permits, on the other hand, declined moderately in many District metro areas in July. Commercial real estate agents report that demand remains strong. In fact, they note that speculative building has picked up in many areas, especially Louisville, which the agents interpret as an indication of continued growth in this sector.

Banking and Finance

A recent survey of District senior loan officers indicates no change in standards for approving commercial and industrial (C&I) loans, although some respondents noted a moderate decline in demand for them. Credit standards for commercial and residential real estate loans, consumer loans and credit cards have also remained unchanged. A mild weakening in demand for real estate and consumer loans was noted. Meanwhile, banks are still finding it difficult to attract deposits because of strong market alternatives for customers.

Agriculture and Natural Resources

Although the lack of rainfall continues to adversely affect crops District-wide, the drought-like conditions are worst in western Kentucky and western Tennessee. Without additional rainfall, particularly in these regions, the soybean crop may not reach its full yield potential. In northern parts of the District, the estimated average yield-per-acre for corn and soybeans has declined. Overall, the corn and soybean crops remain in poor-to-fair condition, while the cotton and rice crops remain in good condition.

NINTH DISTRICT--MINNEAPOLIS

As fall begins, the overall Ninth District economic activity continues to rise, although natural resource-based industries are still struggling. The economy remains vigorous for construction, consumer spending and manufacturing. Many Minnesota consumers are spending their state government rebate checks. However, low commodity prices continue to depress farm income and curtail metal mining. Overall labor markets remain taut and several businesses report boosting worker pay. Generally, prices remain stable, but notable increases were reported for healthcare, homes and construction.

Construction and Real Estate

"Everyone keeps expecting things to slow down a little, but it just isn't happening," says a Minneapolis/St. Paul builders association representative. A record number of construction permits were issued during the first half of 1999 in Eau Claire, Wis. Several apartment complexes are under construction in Sioux Falls, S.D., in response to low rental vacancy rates. Building contract awards grew 1 percent for the three-month period ending in July compared to last year's high levels in Minnesota and the Dakotas.

The number of homes listed for sale in the Minneapolis area for July almost matched a year earlier after remaining below last year's levels during the first six months of 1999; the median price was up 11 percent in July compared to a year earlier.

Consumer Spending and Tourism

Consumer confidence remains strong across the district. A tax rebate payout to about 2 million people in Minnesota at an average of $650 per check in late August is boosting retail sales. As a result, customers increased their purchases of high-end electronic equipment, according to a retailer in St. Cloud, Minn. Meanwhile, a major Minneapolis-based retailer reported a 13 percent climb in sales for the three-month period ending in July compared to a year earlier. A mall manager in North Dakota expects sales in August to finish 4 percent to 5 percent up from a year earlier. Auto sales in South Dakota are above last year's levels, but sales in rural areas are slower.

Summer tourism is up in the east, but down slightly in the west. Hotel and motel occupancy across the Upper Peninsula of Michigan has been above historical levels for July and August, according to a tourism official. Tourism in Duluth, Minn., increased about 10 percent compared to a year ago. Mount Rushmore and Badlands National Park were down 3 percent and 8 percent respectively in July compared to a year earlier. While visits to Glacier National Park are down 9 percent and some areas around Yellowstone National Park are down, other Montana tourism businesses report more traffic than a year earlier, according to a tourism official.

Manufacturing

"Full speed ahead," reported a Minnesota manufacturing industry spokesperson; this comment reflects the state of manufacturing in the district. Signs of expansion are evident, including a Minnesota food processor expanding production capabilities. A plastic molding manufacturer reports sales up 20 percent in the second quarter over the first quarter. A South Dakota computer component manufacturing plant is increasing employment. A western Wisconsin cabinet and furniture maker expects a 15 percent increase in sales over year-earlier levels. In addition, a Creighton University survey reported manufacturing activity strong in Minnesota and North Dakota, but softer in South Dakota. However, a national forestry equipment manufacturer reported weak Ninth District sales over the last six months.

Mining and Energy

Metal-based mining industries remain depressed with the exception of platinum and palladium production. Reduced demand for domestic iron ore has forced reductions in mining output. District iron ore production in June is 14 percent below year-earlier levels and iron ore inventories are 12 percent higher than year-earlier levels. Two Michigan iron ore mines have been shut down for five to 10 weeks to remove some excess inventory. However, due to strong demand for platinum and palladium, a mining company is currently building a new, $270 million platinum and palladium mine in Montana.

Meanwhile, oil exploration activity remains below year-ago levels with only seven rigs working in North Dakota and three rigs operating in Montana compared to 11 and nine, respectively, a year ago. In addition, June oil production was down 3 percent in North Dakota and 9 percent in Montana from year-earlier levels.

Agriculture

Current crop conditions suggest a good harvest this fall. The USDA reports crop progress near or above the five-year average for corn, soybeans and wheat for most district states. In addition, crop yields look promising as the USDA reports the percent of the soybean crop rated good or excellent is 63 percent for Minnesota and 69 percent for

South Dakota. The percent of the corn crop rated good or excellent is 69 percent for Minnesota and 72 percent for South Dakota.

Based on results of the Ninth District's third quarter (August 1999) survey of agricultural credit conditions, 87 percent of respondents reported that farm income is below normal levels as compared to 80 percent of the third quarter 1998 survey respondents. The third quarter 1999 survey revealed that 90 percent of respondents reported below normal levels of farm capital spending compared to 72 percent of the third quarter 1998 survey respondents. In addition, a Farm Service Agency survey of Minnesota County Emergency Boards found that 8 percent of Minnesota farmers are at risk of going out of business this year.

Employment, Wages and Prices

Labor markets remain tight, as companies are still searching for more workers. A credit card company in Sioux Falls, S.D., plans to create 300 jobs over the next two years and a high technology firm in Wahpeton, N.D., is planning to create over 100 new jobs.

However, finding workers is proving difficult for many companies. For example, Minneapolis banks report a teller shortage. The lack of workers is causing employment growth to slow. Nonfarm seasonally adjusted employment for the district grew 1.5 percent in July compared to a year earlier, well below the previous four-year average of 2.1 percent.

Companies are boosting wages to attract employees. A Minnesota labor representative noted a 4 percent to 5 percent increase in wages and use of overtime, flex time and cafeteria benefit plans to retain workers. Manufacturing wages grew 3.7 percent across the district for the three-month period ending in July compared to a year earlier. Wages for hired workers on farms increased 8 percent to 9 percent in July compared to a year earlier.

Overall prices remain stable, except for a few notable increases. Over 70 percent of respondents to a recent informal survey of commercial and industrial companies report steady input and product prices. Several respondents noted that enhanced efficiency and competition have kept prices low. Auto price increases have been modest. Significant price increases include health care, where costs are up 8 percent to 10 percent, according to bank directors. Gasoline and construction inputs are up; plywood has jumped more than 50 percent over the past 18 months.

TENTH DISTRICT - KANSAS CITY

Overview. Growth in the district economy continued to slow in August, but the overall level of activity remained relatively high. Construction activity slowed further from this spring's robust pace. Retail sales were flat but are expected to strengthen in coming months. Manufacturing activity improved, and most district plants are now operating at high levels of capacity. In the farm economy, another large harvest is expected this fall, which should continue to keep grain prices low. Labor markets in most of the district remained very tight, with extensive reports of labor shortages. Reports of wage pressures, however, were similar to recent surveys. Retail prices were flat, while prices for construction materials and some manufacturing materials increased.

Retail Sales. Retailers in the district reported flat sales once more, despite back-to-school promotions in August. Sales of casual clothing remained strong, and women's cosmetics enjoyed a busy sales month. Purchases of home furnishings weakened somewhat following robust sales earlier in the year. Store inventories continued to expand and are expected to rise further, as managers are optimistic about future sales growth. Automobile sales varied across the district in August but remained high compared with a year ago. Expectations for future vehicle sales were similar to the previous survey but weaker than earlier in the year. Vehicle inventories did not appear to be a concern as dealers began the model year rollover.

Manufacturing. District factory activity showed some progress in August following weakness earlier in the year, with capacity utilization at its highest level in over a year. Most manufacturing materials remained generally available, improving overall lead times. Concerns about future material availability eased slightly from the previous survey, with managers now expecting few problems. Most managers were dissatisfied with current inventories and plan to trim stock levels in coming months.

Housing. Builders in the district continued to report a slowing in construction activity, with housing starts steadily declining since the spring. However, home starts in August remained above year-ago levels. Expectations for future building activity improved after dropping sharply in the previous survey. Extensive availability problems continued for sheetrock and some other construction materials, but some builders expect these problems to ease in coming months as supply increases and demand growth slows down. Home sales remained flat in August, and inventories of unsold homes were largely unchanged. Mortgage demand has slowed along with the fall in housing starts and rising interest rates, and mortgage lenders expect demand to continue to decline.

Banking. Bankers report that loans increased and deposits held steady in August, boosting loan-deposit ratios. Demand rose for consumer loans, commercial real estate loans, and agricultural loans. Demand for home mortgage loans fell. On the deposit side, declines in NOW accounts and small time deposits were offset by an increase in large time deposits. Almost all respondent banks increased their prime lending rate last month, and about half raised their consumer lending rates. Most banks expect to raise their prime rate and consumer lending rates in the near future. A few banks tightened their lending standards on agricultural loans in response to low commodity prices.

Energy. After pausing in July, district energy activity in August continued the rebound that began in April. The rig count rose 9 percent in August and is now more than 26 percent above the March low. This trend is expected to continue, so long as oil prices remain around current levels. The price of West Texas intermediate crude oil rose above $21 per barrel in

August after reaching a low of $11 at the beginning of the year. Expectations of OPEC holding to production quotas until spring could keep prices high and rig activity rising in coming months. Natural gas prices jumped 24 percent in August as supplies struggled to keep up with strong demand.

Agriculture. The district's corn and soybean crops are in good condition with above-average yields expected. Another bumper harvest promises to boost already large supplies and keep prices low this fall. Low feed costs and stronger cattle prices have boosted profits for the district cattle industry. With profits up, district feedlots are filling up and cattle ranchers are expected to begin rebuilding breeding herds. District bankers report farm loan portfolios have weakened somewhat during the past year, and with farm commodity prices down, further deterioration is expected. The farm downturn has also slowed rural business activity, especially motor vehicle and farm equipment sales.

Wages and Prices. Labor markets remained very tight in most of the district, with across-the-board reports of labor shortages. Manufacturing firms continued to face shortages of production workers and also reported challenges in recruiting professional staff, such as engineers and accountants. Retailers experienced increased difficulties finding sufficient sales workers for back-to-school promotions. All types of construction workers remained extremely hard to find. Overall wage pressures were similar to the previous two surveys, as a reported rise in wage pressures by retailers and builders was offset by a slight easing in manufacturing. Retail prices were flat in August and are likely to remain so in the near future. Prices for some manufacturing materials edged up and are expected to continue rising in coming months. Prices for construction materials rose again, especially for sheetrock. Further increases are anticipated.

ELEVENTH DISTRICT--DALLAS

In August and early September, Eleventh District economic activity expanded at a slightly faster rate than reported in the last beige book, and most contacts were optimistic about demand in coming months. Manufacturing activity increased at a slightly faster rate and retailers reported very good sales growth. Drilling activity continued to rise, although demand for oil field services remained tepid. Agricultural conditions were mostly favorable. Construction activity was unchanged. Credit conditions were stable with slightly increased loan demand and steady deposit growth. Demand for business and transportation services was steady and strong.

Prices. Prices for more goods and services rose than fell over the past six weeks. Tight labor markets led to wage increases at some firms in the glass, concrete, trucking, food and accounting industries. However, many companies continued to increase recruiting efforts and overtime rather than wages. One contact reported that due to tight labor markets, employee preferences have become a more important factor in firms' office location decisions. Costs for construction labor and materials have increased 5 to 8 percent this year. One contact reported a recent leveling off in construction wages, but prices continued to increase slightly for some construction materials, such as glass, wallboard, brick and primary metals. Paper and corrugated material prices rose 6 to 10 percent in the past six weeks. Prices of business services, oil, refined products, ethylene, polyethylene, timber and some semiconductors also rose. Refiners reported margins improved but were still "terrible." Prices of fabricated metals, hardwoods, motor vehicles, truck cargo services and most retail goods were steady. Concrete prices fell in a few areas of Texas with increased competition, but were steady elsewhere. Natural gas prices, after rising through August, have started to decline with the end of the summer cooling season. Apparel and some meat prices fell slightly. Contacts reported that softwood lumber prices, which had been relatively high for most of the year, fell slightly recently.

Manufacturing. Manufacturing activity accelerated slightly in August and early September. Sales of semiconductors and communication devices picked up slightly, and contacts reported that demand in Asia continued to grow. Sales of gasoline, hardwood lumber products, primary and fabricated metals, some glass products and brick increased over the past six weeks. Strong demand for gasoline combined with refinery outages to reduce gasoline inventories for nine consecutive weeks this summer before they edged back up in late August. Plastics processors were struggling to rebuild their feedstock inventories after a series of unplanned outages reduced ethylene production earlier this summer. A few primary metals contacts said that sales growth has slowed with less demand from the construction and mining industries. Demand for food and paper products, wallboard, pine lumber products and concrete was unchanged over the past six weeks. Demand for apparel, as well as glass products used in commercial construction decreased slightly.

Services. Demand for business and transportation services was steady and strong over the past six weeks. Temporary firms said that increased oil prices have led to increased demand for workers from the energy sector, but completion of many firms' Y2K compliance projects has dampened demand for customer service and information technology (IT) skills. However, legal and accounting firms continued to report strong demand for IT and Internet-related work, as well as transaction, litigation, bankruptcy and tax service work. Trucking firms reported "very good" levels of demand. Airline and railroad contacts reported increased competition.

Retail Sales. Retailers reported very good sales growth, with a strong burst in sales thanks to the Texas tax holiday in early August. Inventories were generally in line with sales, although one retailer said inventories were lower than expected because sales were stronger than expected. Retailers were generally optimistic that sales will continue to be good, but a few were forecasting slower sales growth. Auto sales continued to be strong, at about the same level as in July.

Financial Services. Contacts reported stable credit conditions in the month of August with slightly increased loan demand and steady deposit growth. Lending growth was boosted by near-record auto sales, while real estate and home equity lending remained strong. Financial institutions reported liquidating other investments to fund new loans. While contacts reported concerns over media hype creating extra demand for cash in coming months, they said they will have enough cash on hand to meet Y2K needs.

Construction and Real Estate. Construction activity was unchanged over the past six weeks, with many projects running behind schedule due to labor and material shortages. Inventories of unfinished new homes rose while sales continued to increase. Office rents and occupancy rates were mostly stable, but there was some weakening in certain areas. One contact noted that increased HVAC and technology requirements in office buildings will speed the obsolescence of older buildings.

Energy. Drilling activity continued to rise in August and early September, but most new projects continued to be low-risk, onshore, shallow wells and directed to natural gas instead of oil. Due to the conservative nature of these drilling projects, contacts report much smaller increases in demand for oil field services relative to increases in drilling.

Agriculture. Agricultural conditions were mostly favorable. Grain storage problems were reported in many areas due to good yields and full elevators. Livestock conditions remained fair to good across Texas. Disaster payments have helped farmers recover from 1998 losses and most farmers expect a more profitable year than in 1998. But low commodity prices are keeping profits in check, and lenders are concerned with both the number of and credit worthiness of loan renewals for year 2000.

TWELFTH DISTRICT—SAN FRANCISCO

Summary

Reports from contacts indicated continued strong economic conditions in the Twelfth District during the most recent survey period. Service providers in the District noted an acceleration in growth above an already rapid trend, while retailers reported moderate increases in nominal sales. Manufacturing activity picked up in recent weeks, boosted in part by increasing export demand. Conditions among District agricultural producers were mixed, as the weather and prices improved for ranchers but deteriorated further for farmers. Activity in real estate and construction markets remained at high levels in most areas; strength was most notable in parts of California and Washington. Financial institutions reported good conditions, with little change in loan demand or credit quality.

Business Sentiment

District respondents expect continued strong national and regional economic growth in the near term. More than one-half of respondents expect U.S. GDP to exceed its long-run average pace in coming months, with the remainder of respondents expecting growth to proceed according to trend. Accordingly, most respondents expect the national unemployment rate to remain at or below its current level. A majority of respondents expect inflation to increase during the next twelve months; however, a growing number expect inflation to remain stable in coming quarters. About two-thirds of respondents expect economic growth in their region to outpace national growth in the year ahead, as improvements in their region's foreign trade balance augment strong growth in consumer spending and business investment. In contrast to previous survey periods, nearly two-thirds of District respondents expect housing starts to slow in coming months.

Retail Trade and Services

Overall, District respondents reported moderate growth in nominal retail sales during the survey period. Back-to-school shoppers reportedly remained cautious, searching for bargains and delaying purchases to take advantage of post-Labor Day sales. Sales growth reportedly was strongest at "big box" retailers and at speciality stores catering to niche markets. Department store sales were flat relative to last year in many areas of the District, as lower average selling prices offset higher unit sales. On the whole, District retailers reported adequate inventory levels and few merchandise supply problems.

Service industry respondents in most District states reported strong growth. Demand for telecommunications and cable television installations surged in recent weeks, producing material shortages and delaying deliveries in some regions. However, prices for most telecommunications and cable products remained stable due to stiff competition among providers. Respondents from California and Nevada reported solid growth in tourism-related restaurant sales, car rentals, and hotel occupancy rates. In contrast, the tourism sectors in the Pacific Northwest and Hawaii remained weak relative to previous years.

Manufacturing

Reports from contacts indicate improved conditions in the District's manufacturing sector in recent months. Domestic demand for manufactured products remained strong, and contacts noted a pickup in demand from East Asia for a diverse set of products including industrial machinery and equipment, electronic components, wood products, chemical products, and processed foods. Increased demand reportedly has allowed many producers to draw down excess inventories and boost capacity utilization rates at their plants. On the downside, new orders for commercial aircraft remained weak, and layoffs among major producers and suppliers continued. Overall, District manufacturers reported few difficulties obtaining materials or supplies, no capacity constraints, and stable or declining prices for many key inputs.

Agriculture and Resource-related Industries

District agricultural producers reported mixed conditions in recent weeks. Conditions for cattle ranchers improved in recent weeks. Export demand strengthened, prices rose, and low grain prices kept costs down, generally boosting the profitability of producers in most sectors of the beef industry. In contrast, unseasonal weather during much of the summer resulted in poor quality crops and low yields among producers of grains and fruits and vegetables. For grain producers in the District, short crops have combined with low commodity prices to constrain profitability, a problem that reportedly has begun to raise concerns about the repayment of production and equipment loans.

Real Estate and Construction

In general, residential and commercial real estate activity remained at high levels in the District in recent months. In the San Francisco Bay Area, Southern California, and Washington's Puget Sound region, growth in residential and commercial real estate sales remained robust, resulting in lower vacancy rates and rising prices. Elsewhere in the District, respondents noted that higher mortgage rates, rising building costs, market saturation, and the fear of overbuilding have contributed to slowdowns in both residential and non-residential construction. Despite the recent slowdown in some states, building materials such as drywall, concrete, and structural steel, reportedly remain in short supply.

Financial Institutions

District financial institutions continued to report healthy loan demand and generally good credit conditions. Financing remains readily available for qualified businesses, and stiff competition is encouraging lenders to offer favorable financing terms. Reports regarding loan delinquency rates and new loan quality were little changed in recent months, although contacts expressed some concern about the quality of agricultural loan portfolios. The ongoing consolidation in the banking industry has left many experienced financial-sector workers available for hire, keeping wage pressures in this industry to a minimum.