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Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

April 2002

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

April 2002

TABLE OF CONTENTS

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

SUMMARY*

Almost all Federal Reserve Districts reported signs of improvement or actual increases in economic activity since the last survey. The sole exception was Boston, which described economic activity as mixed. While the overall tone was positive, a few districts expressed qualifications about the pace of the recovery or the strength of their regional economies. Cleveland said its economy continued to improve but cited concerns that the rate of improvement had slowed considerably from earlier in the year. Also, Kansas City and Dallas noted that their economies were still weak despite recent signs of improvement.

Retail sales increased or held steady in most districts, and all districts reported stable or improved manufacturing conditions. Manufacturers' capital spending plans, however, remained limited. Residential real estate activity was strong in most districts, as both home sales and construction increased. Tourism activity also improved in most areas, while other services activity held steady. Demand for bank loans was little changed in most districts, although increases were reported in some regions. Commercial real estate markets remained generally weak, especially in the San Francisco, Dallas, and Atlanta districts, but showed signs of steadying in the New York, Richmond, Chicago, and Kansas City districts. Energy activity continued to ease, and agricultural crops in several districts were damaged by adverse spring weather.

Despite the increases in economic activity reported in many districts, labor markets remained slack and wage and price pressures generally stayed in check. Demand for labor showed signs of firming in several districts but was still reported as weak in others. Except for

* Prepared at the Federal Reserve Bank of Kansas City and based on information collected before April 16, 2002. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials

skilled health care workers, there were very few reports of labor shortages. Also, those districts that mentioned wage pressures described them as minimal. Retail prices were generally flat. Steel producers sharply boosted prices, but most other manufacturers held prices steady despite reports in some districts of higher costs for fuel, steel, and petroleum-based inputs.

Consumer Spending

Most districts reported that retail sales held steady or rose moderately in March and early April. Philadelphia and Richmond reported increased sales from previous months, and Cleveland, Atlanta, Minneapolis, and Kansas City reported sales above year-ago levels. Sales appeared to be weakest in the Dallas district, although retailers there reported some signs of improvement as well. In the New York, Chicago, and St. Louis districts, sales at discount retailers were reported to be better than at general merchandise stores. Home furnishing items continued to sell particularly well in most districts. Apparel sales were reported as weak in some districts, but as rebounding somewhat in the New York, Philadelphia, and Cleveland districts. Store managers across the country appeared to be largely satisfied with inventory levels, and were generally positive about the outlook. Retailers in the Kansas City district, however, said they were ready to begin discounting if sales did not meet expectations.

Automobile sales were characterized as mixed or flat in most districts reporting on such activity. Dealers were cautiously optimistic about future sales in the Philadelphia and Kansas City districts. On the other hand, Cleveland district auto dealers did not expect to meet last year's sales levels, and dealers in the Dallas district were concerned that rising interest rates would dampen sales. Dealers in the St. Louis district were also keeping inventories a little lower than usual in case sales did not pick up.

Manufacturing

Manufacturing activity in March and early April was reported to be either stabilizing or showing signs of improvement in all districts. Plants in the Philadelphia and Richmond districts reported continued growth in orders and shipments, and many plants in the St. Louis district were hiring new and previously laid-off workers. Boston and Kansas City also reported signs of a looming turnaround, but noted that activity was still weak compared with a year ago.

Industries reporting the strongest activity included producers of auto parts, steel, residential building materials, and furniture. Activity also remained solid at automobile plants in the Cleveland and Chicago districts and among semiconductor producers in the Boston, Dallas, and San Francisco districts. Textile and apparel manufacturers in the Richmond, St. Louis, and Dallas districts experienced increases in demand as well, but the rebound follows numerous plant closures. Plants in most districts reported a stabilization of inventories following a lengthy period of decline, and some firms in the Chicago and San Francisco districts were cautiously increasing stock levels.

Manufacturers were generally optimistic about the outlook for factory activity later in the year. Purchasing managers in the New York district, in fact, reported their highest expectations for increases since mid-2000. In contrast, some producers of capital goods in the Boston district expected weakness to continue until 2003. Despite the generally positive outlook, capital spending plans remained rather limited across the country. Kansas City reported a similar number of firms expected to increase as to decrease capital expenditures over the next six months. Philadelphia reported that manufacturers have raised capital spending plans, on balance,

but that the planned increases have been spotty and concentrated mainly in the chemicals and plastics industries.

Real Estate and Construction

Residential real estate activity remained robust. Housing markets were reported to be strong in most districts, with both home sales and new construction showing continued gains. The housing market in the Boston district was described as very strong, with listings in short supply throughout the region. In New York, further strengthening in home sales has caused the number of unsold homes to dwindle and has led to some acceleration in housing prices.

Richmond also reported especially strong housing activity, with one metro area described as the best sellers' market ever and another metro area said to be experiencing rapidly escalating home prices. There were, however, a few exceptions to the overall strength in housing activity. Home sales softened somewhat in the Chicago district, and residential construction activity remained weak in the Dallas district. Moreover, demand in several districts was weaker for high-end homes than for low- and mid-priced homes, and demand for rental units in the New York district was not as strong as that for houses.

Commercial real estate activity remained generally weak but appeared to be stabilizing in a few districts. Markets remained especially weak in the San Francisco, Dallas, and Atlanta districts. In the San Francisco district, vacancy rates continued to increase, lease rates continued to decline, and new construction was at a minimum. In the Dallas district, office markets were still being held back by overcapacity and weak demand, causing steep declines in rental rates in many areas. Commercial markets in Atlanta also continued to suffer from weak demand, limiting new construction. Commercial builders in the Cleveland district expected to be busy in

the coming months but were somewhat less optimistic than in the previous survey, with more projects still in the planning stage than they had hoped. On the positive side, commercial markets in a few districts showed some signs of stabilization or improvement. Leasing activity strengthened in the Richmond district, and office vacancy rates appeared to level off in the New York, Chicago, and Kansas City districts following months of steady increases. There were also scattered reports in the Chicago district of sublease space being pulled off the market by tenants who had overestimated the extent of the business slowdown.

Tourism and Services

Travel and tourism continued to improve, yet remained below year-ago levels in most reporting areas. Richmond and Minnesota reported strong ski seasons in their districts, and Atlanta reported that theme parks in Florida were busy and cruise lines were operating near capacity. New York and Richmond both reported that hotel business had improved.

Expectations for the summer travel season were high in most districts. However, Atlanta reported that some contacts fear high fuel costs may limit automobile travel this summer and Kansas City reported that advance bookings at mountain resorts were still trailing year-ago levels.

Activity in other service industries was generally steady. Trucking service firms in the Cleveland district noted a moderate increase in the volume of manufacturing shipments, while Dallas indicated that demand for transportation services was still low relative to past levels. In the Cleveland district, trucking firms' operating margins remained very thin due to high fuel and insurance costs. A media company in the Richmond district reported that ad revenues rose for the first time in over a year, and insurance firms in Boston reported continued high demand for

life insurance. Demand for legal services, particularly in the areas of litigation and bankruptcy, increased somewhat in the Dallas district.

Financial Services

Demand for bank loans held steady or rose modestly in most districts. Banks in the Cleveland, San Francisco and Atlanta districts reported some increase in demand for consumer loans and home-purchase mortgages, while banks in the New York district experienced increased demand for nonresidential mortgages. Demand for business loans was up modestly in the Philadelphia district but flat in other districts. In the Chicago district, banks noted that recent improvements in business sentiment were not translating into increased loan demand. Similarly, banks in the Philadelphia district said their business customers were seeing increased demand but were showing little inclination to take out loans to finance the expansion of facilities. In contrast to home-purchase mortgage lending, mortgage refinancing activity in most districts was down from the high levels reached last year.

Changes in credit quality showed no clear pattern. At banks in the New York district, delinquencies fell for consumer loans and residential mortgages. At banks in the Atlanta district, consumer delinquencies increased but remained manageable. Banks in the Chicago district reported that business loan quality had stabilized following previous deterioration but was still fragile. Banks in the Philadelphia and Kansas City districts were still limiting their commercial real estate lending, and banks in the New York district continued to tighten standards for all types of loans except residential mortgages. Otherwise, lending standards were unchanged in those districts reporting on them.

Natural Resources and Agriculture

Activity in the energy sector continued to ease. Despite recent increases in oil and natural gas prices, contacts in the Dallas and Kansas City districts reported that exploration and production activity in the oil and gas sector was contracting while Minneapolis reported flat activity. Kansas City indicated that the higher prices have produced some optimism about future activity. Some producers in the Dallas district also expressed interest in increased future activity, but others were merely taking advantage of increased prices to improve their balance sheets. Outside of the oil and gas industry, Minneapolis reported that activity in the iron ore sector was expanding with the reopening of some shuttered extraction and processing facilities.

In the farm economy, spring weather conditions have adversely affected some areas. Continued low levels of soil moisture in most of the Minneapolis, Kansas City, and Dallas districts have damaged crops, while portions of the Cleveland, Chicago, and St. Louis districts reported excessively wet conditions. Recent cold weather may have also damaged the apple, peach, and strawberry crops in the Richmond district. The winter wheat crop was reported to be doing well in areas with sufficient moisture, including the Cleveland and St. Louis districts, but has been severely damaged in the drought areas of the Minneapolis and Kansas City districts. Spring planting is either under way or is expected to begin soon in most districts, with St. Louis and Chicago reporting that more acres are being devoted to corn and fewer to soybeans this year.

Labor Markets, Wages, and Prices

Labor markets remained generally slack. Modest increases in demand for workers in some industries were reported in the New York, Cleveland, Richmond, Atlanta, and St. Louis districts, but otherwise demand was weak across the nation. San Francisco and Dallas reported

that employers still have the advantage in most hiring situations, and firms in the Kansas City district enjoyed a rising number of job applicants and declining turnover rates. The only workers reported as being in short supply in more than one district were those in skilled health care occupations.

Wage pressures, when mentioned, were characterized as minimal. Half of the manufacturers contacted in the Boston district expected to hold wages steady at least until the second half of the year. San Francisco reported that wages were being held back due to significant increases in health care and other insurance premiums. New York, Cleveland, Atlanta, and Dallas also reported substantial increases in insurance costs.

Price pressures for consumer goods were generally subdued, and prices for most manufactured goods held steady despite higher costs for steel, fuel, and insurance. Retail prices were essentially flat in the New York, Kansas City, and San Francisco districts and were flat to down slightly in the Boston district. Retail price pressures in the Chicago district also remained subdued, with price-conscious consumers discouraging retailers from going ahead with planned increases. Steel producers in the Cleveland and Chicago districts raised prices significantly. Despite reports of increasing input costs in some districts, other manufacturers generally held their selling prices constant. Concerns about rising input costs were especially pronounced in the Dallas district, where rising costs for fuel, petroleum-based products, and insurance were said to be adversely affecting many industries.

FIRST DISTRICT – BOSTON

Economic activity in the First District is mixed. Real estate contacts report residential markets are strong. Respondents in the insurance industry say demand is picking up. With exceptions, retail contacts report flat sales compared with a year ago, which they indicate is approximately in line with expectations. Revenues are flat or down for New England manufacturing contacts, but demand is showing signs of picking up for defense contractors and companies producing selected consumer products. Both manufacturers and retailers say selling prices are flat. Many manufacturers are keeping wage freezes in effect; retailers indicate wages are rising only slowly. Contacts continue to expect only modest recovery and have varied views about when their business will rebound, with some expecting improvement during the second half of this year and others looking into 2003.

Retail

Most New England retailers contacted report first quarter same-store sales flat with a year ago and roughly in line with expectations. An exception is a firm selling construction supplies, which cites double-digit sales growth. An auto dealers' association reports good sales, but a bit of a slowdown at the end of March. By contrast, business is still very weak for contacts serving the tourism industry. Aside from tourism, respondents are "feeling better;" a couple have seen more improvement in recent weeks.

Retail contacts are generally holding headcounts steady. Wages are rising at about a 3 percent pace, which is said to be slower than last year. One respondent has implemented a wage freeze; another is cutting pay. Prices are holding steady or falling slightly, with the exception of building supplies affected by tariffs. Some retailers indicate margins are being squeezed, others say cost cutting has maintained profits.

While retailers say they are hopeful the economy will improve this year, they are not planning on a strong turnaround. Tourism contacts say leisure travel will recover before conference and business travel. A few contacts expect the third or fourth quarter of the year to be "significantly better." Others foresee no real improvement until early 2003.

Manufacturing and Related Services

Almost all First District manufacturing contacts report that revenues in the first quarter of 2002 were either flat or down relative to a year ago. Some report an emerging pickup in demand resulting from consumer spending, selective relaxation of business spending constraints, or U.S. government defense purchases. For example, one company in the semiconductor industry believes that the worst of its severe slump may be over as sales of personal computers and cell phones appear to be recovering. Markets for selected appliances and automotive parts, consumer instruments, and computer-based corporate training products also are turning up. However, makers of capital goods such as computer equipment, large electrical equipment, and aircraft and parts express disappointment that business remains in a slump.

Manufacturers mostly report that selling prices are flat. Contacts producing large capital goods, plastics products, and paper are experiencing downward pressures. Materials costs are largely flat, but manufacturers express concern about announced postal rate hikes, already-rising medical costs, and anticipated increases for metals and petroleum-based products as contracts come up for renewal.

Manufacturers remain intent on controlling costs. About one-half envision having some form of pay freeze in effect through at least the first half of this year; only a couple have announced the lifting of a pay freeze. Almost all contacts expect their employment levels to hold steady or to drift downward with internal productivity enhancements or outsourcing. Manufacturers are retaining a tight stance with respect to capital spending and inventory investment. Although some contacts indicate that they have "loosened the purse strings" slightly this year, all respondents point to ongoing needs to become more efficient or restore profitability.

Manufacturers express mixed views regarding the outlook. Some interpret very recent upticks in their business as a confirmation of economic recovery. Others--notably makers of capital goods--now expect their business to remain weak throughout 2002 rather than improving in the second half.

Residential Real Estate

New England's residential real estate markets are very strong. Contacts report high levels of activity and shortages of listings throughout the region, especially in mid-price range market segments.

The mild winter and low interest rates have helped spur demand. Contacts report instances of multiple bids and sales above asking price; many properties sell within a few days of being listed. Massachusetts experienced a large increase in sales of both detached homes and condominiums in the first quarter of this year, following a decline in sales the previous quarter. Home prices in the first quarter of 2002 are said to be steady in Connecticut, Maine, and Rhode Island, but up moderately in Massachusetts, New Hampshire, and Vermont. Most contacts expect the market to remain active and strong in the near future, but anticipate price increases if supply remains limited.

Insurance

Life insurance contacts report very strong sales for the fourth quarter of 2001 and the first quarter of 2002. One contact reports year-over-year sales growth in excess of 50 percent in both their term and single life insurance products, with slower growth in variable life and universal life products. A second contact mentions similar growth for their life insurance products and continuing record-level application requests. One respondent cites strong mutual fund sales at the end of 2001 and the beginning of 2002, while another indicates that sales are soft. Both attribute these results in part to investors' increased attention to published rankings for mutual funds. On the disability insurance side, claims are up; increases in disability claims are usually associated with a weak economy. This contact has had some success raising prices and generally views business as being "pretty good." A health insurance contact mentioned some loss in membership attributable to layoffs at large corporate clients, reflecting "continued softness in the economy."

Although there is a feeling of optimism among insurance respondents, all seem to have concerns about the near future. One points out that while news reports say the economy is improving, they have not seen any signs yet. Employment levels are expected to remain the same, with some contacts reporting making a small number of cuts while others report a few additions.

SECOND DISTRICT--NEW YORK

The District's economy has strengthened, on balance, since the last report, with no signs of broad-based price pressures. The labor market has firmed a bit, and consumer confidence has risen. Retail sales in March and early April were mixed, but generally close to plan—comparable-store sales were up marginally from a year earlier, inventories were said to be in good shape, and both merchandise costs and selling prices remained flat. Residential sales markets across the District have shown further signs of strengthening since the last report, though rental markets remain soft. Manhattan's office market remains slack but has shown signs of stabilizing since the last report. Purchasing managers and manufacturers report strengthening in business conditions and express widespread optimism about the near-term outlook. New York City hotels report continued moderate improvement in business in March. Finally, bankers report steady to stronger loan demand, slightly tighter credit standards, and lower delinquency rates on consumer and home mortgage loans.

Consumer Spending

Major retailers report that sales were mixed but generally close to plan in March and the first half of April. General merchandise chains report little change on a year-over-year basis, while discounters continued to report moderate gains. Manhattan department stores report that business has rebounded fully—as before September 11, sales are now back on par with those in the outer boroughs and suburbs. Sales of women's apparel have remained fairly strong in recent weeks, and there has been some rebound in men's apparel. Sales of home furnishings and electronics have continued to be strong, but retailers report weakening in sales of small-ticket items for the home, such as linens, tableware and small appliances.

More generally, retailers report that inventory levels remain satisfactory. One large chain indicates that it is building inventories of imports for the upcoming fall and winter seasons earlier than usual, in anticipation of a longshoreman's strike on the West Coast this summer. Most contacts report that selling prices and merchandise costs are essentially flat. Retail wage costs remain fairly stable, but contacts continue to report sharp increases in health and property insurance premiums. One major chain notes that costs in both

these categories are running 20 percent ahead of a year ago.

Recent surveys of District residents suggest sturdy improvement in consumer confidence. According to the Conference Board, consumer confidence in the Middle Atlantic region rose sharply in March, climbing to its highest level since last August. A Siena College survey of New York State residents shows that confidence improved across the state in the first quarter, led by New York City.

Construction and Real Estate

Home sales markets across the District have strengthened further since the last report. Realtors in both the Rochester and Buffalo areas report strong home sales volume and some acceleration in prices. Contacts note that demand has been steady to stronger, while the number of homes on the market has dwindled. Similarly, a leading New York City appraisal firm reports that Manhattan's co-op and condo market strengthened in the first quarter: both unit volume and selling prices were up noticeably from a year earlier, and homes have not stayed on the market for long.

In contrast, the market for rental apartments remains weak; in both Manhattan and along the Hudson waterfront in New Jersey, rents are reportedly averaging 15 percent lower than a year ago, and some landlords are offering a month's free rent. Contacts attribute the dichotomy between the sales and rental markets to low mortgage rates, as well as the fact that local residential development in recent years has almost entirely consisted of rental properties.

Commercial real estate markets, though still slack, showed signs of stabilizing in February and March. A major Manhattan brokerage firm reports that office availability rates, which had climbed to a roughly three-year high in January, leveled off in February and March. Although leasing activity was subdued in the first quarter, much less new space came to market than in the fourth quarter of 2001.

Other Business Activity

A major New York City employment agency reports that the labor market picked up substantially in March and the first half of April, though it was still a good deal weaker than during the boom that lasted through 2000. A pickup in hiring activity was reported across a wide range of industries, including a

moderate rebound in the financial sector. However, hiring remains weak in the information technology field, with large numbers of people still looking for work.

Manhattan hotels report that business continued to recover in March, with the occupancy rate roughly on par with a year earlier. Room rates were down roughly 12 percent from a year earlier—about the same as in February but substantially improved from January and especially late-2001.

New York State's goods-producing sector has shown further signs of rebounding. New York City area purchasing managers report that manufacturing-sector conditions continued to strengthen in March, and they expressed more widespread optimism about the near-term outlook than in nearly two years. Purchasers at Buffalo-area factories report that production activity, new orders and employment leveled off in March, after declining in the first two months of the year. Purchasers in both areas report that input prices were little changed. More recently, based on a survey conducted in early April, New York State manufacturers report that business conditions resumed an improving trend, following a lull in March, and that price pressures increased modestly. Respondents also express increasingly widespread optimism about the near-term business outlook.

Financial Developments

According to the latest survey of small to medium-sized Second District banks, demand for nonresidential mortgages picked up substantially, but loan demand in most other categories has remained stable since the last report. However, a large proportion of bankers report declines in refinancing activity—43 percent, compared with only 18 percent reporting increases. Bankers continue to report some tightening in credit standards for all but residential mortgages. In particular, tighter standards in commercial and industrial lending are reported by one in four bankers, with only 3 percent indicating easier standards. Loan rates increased on most types of loans, most notably residential and nonresidential mortgages, though rates on consumer loans remained stable. The average deposit rate remained stable. Lenders report lower delinquency rates on consumer loans and especially on residential mortgages, but little or no change in other categories.

THIRD DISTRICT – PHILADELPHIA

Business activity in the Third District was on the rise in April. Manufacturers reported increases in shipments and orders, and slightly more firms were posting gains in new orders in April than in March. Retail sales of general merchandise have been rising modestly, and stores' year-over-year increases appeared to be accelerating somewhat. Auto sales have been steady. Bank loan volumes have been moving up slowly, mainly because of some growth in business lending. Employment in the region has been on the decline, but the downward trend appears to be moderating. Employment continued to fall in manufacturing and trade and has been virtually flat among financial and insurance companies. Employment has begun to rebound in the lodging industry, and there have been some gains in employment in business services except among computer service firms, which have been reducing employment.

Looking ahead, Third District businesses contacted in April expect modest growth in the region during the rest of the year. Manufacturers forecast increases in shipments and orders. Retailers expect the growth rate of sales to accelerate as the spring selling season gets under way. Auto dealers anticipate steady sales at around the current rate. Bankers generally forecast slow growth in overall lending, with relatively stronger increases in commercial and industrial loans and slight gains in consumer lending but a decline in real estate lending. Companies in all industries intend to add equipment and expand facilities as their business improves, but most of the area firms reporting on their investment plans indicated they would not be making major software purchases this year. Business firms in the region indicate that, on balance, their capital spending this year will be even with or slightly above last year's levels.

MANUFACTURING

Third District manufacturers reported continuing modest gains in activity in early April. Increases in orders and shipments were slightly more widespread among area manufacturers than they were in March. Business conditions were relatively stronger for furniture makers, building materials producers, and metal products manufacturers.

Several apparel makers noted significant improvement after a slow first quarter. In contrast, producers of industrial machinery, electrical equipment, and chemicals indicated their business was flat or rising only weakly. On balance, industrial firms continued to reduce inventories, although half of those contacted for this report said they were maintaining steady inventories. More than three out of four manufacturers in the region indicated that prices for both inputs and the goods they manufacture were steady in February.

The region's manufacturers have positive forecasts. Over half of the firms surveyed in April expect increases in orders and shipments during the next six months, while around one in 10 anticipate decreases. On balance, area manufacturing firms have raised capital spending plans, but increases are modest and spotty across the major industrial sectors in the region. Several chemical and plastics companies have scheduled increases in outlays. Capital spending in other manufacturing sectors is likely to be flat or up just slightly.

RETAIL

Third District retailers generally reported moderately rising sales in early April. Sales were up compared to last month and to April of last year. Most of the store executives contacted for this report said the rate of increase had picked up slightly in recent weeks. Sales of home furnishing continued to be brisk. Apparel sales have strengthened after being slow during the winter months, but some merchants said sales of spring clothing were slightly below their plans. Most area retailers said their inventories were at appropriate levels, but some indicated that they had lower than desired stocks of some popular items. Store executives expect the sales rate to accelerate as the spring selling season takes hold. In particular they look for improvement in apparel sales as consumers shop for warm weather clothes. They also expect sales of summer-related sporting goods and lawn and garden equipment to be good.

Auto dealers said sales have been steady recently at a healthy pace. They expect the current sales rate to continue through the rest of the year, supported by ongoing manufacturers' incentives.

FINANCE

Outstanding loan volume at Third District banks has edged up in recent weeks. Banks have had modest growth in business loans. Business borrowing has moved up across a wide variety of industries, although the total increase has been slight. Consumer credit has been flat. Most of the banks in the region indicated that mortgage refinancing activity has been easing, but several noted increases in purchase mortgages. Most of the bankers contacted for this report indicated they continued to limit their commercial real estate lending activity, although some said they were still making loans to well-capitalized builders.

Bankers in the Third District expect overall lending to continue to grow slowly this year. Several noted that their business customers are seeing increased demand, which should result in some increased financing needs, but bankers do not anticipate a large overall extension of credit to business borrowers for major expansion of facilities. Bankers expect consumer lending to increase slowly, but they anticipate a slowdown in residential real estate lending.

CAPITAL SPENDING

Most of the business firms in the region that were queried on their capital spending plans indicated that such expenditures this year will be around the same as last year or slightly higher. However, some firms expect to make significantly larger capital outlays this year compared with last year. These firms were in a variety of industries, and it appeared that they were responding to increased demand for their particular products rather than an increase in overall demand within their industries.

Although area firms are not planning large increases in capital spending in total, the capital spending that they will make includes a broad range of business equipment as well as new buildings. Manufacturing companies indicated they would be expanding capacity by adding production equipment. Service companies said they would be updating office equipment. Several large retail companies said they would be building new stores, but they were only planning the same number of new stores this year as last. Firms in most industries indicated that they were unlikely to make large purchases of computer software this year.

FOURTH DISTRICT – CLEVELAND

While the Fourth District economy continued to improve through the second week of April, contacts voiced some concern that the rate of improvement had slowed considerably from the pace seen during the last half of January and the month of February. Most contacts reported that growth fell short of expectations during March and through the first two weeks of April. Reports within the manufacturing, banking, and retail sectors contrasted sharply, suggesting that recent growth in the District has been somewhat sporadic in these areas. While contacts continued to say they were “cautiously optimistic” about the probability of the latter half of 2002 showing growth over the latter half of 2001, their optimism appeared to have been somewhat dampened during March and the start of April, as most contacts reported lower expectations for the year.

Labor markets began to show signs of improvement during March and the first two weeks of April. Demand for temporary labor increased, and recent work orders and inquiries for temp workers suggest the higher levels of demand will persist. Job security continues to be the principal concern of organized labor, but contacts in some industries, including steel, suggested they were less “uneasy” about job security than they had been in previous reports. Other industries, such as aerospace and telecommunications, however, reported no improvement. Health care benefits remain the primary point of contention in most negotiations and renegotiations. A few contacts reported a slight increase in hours of current workers, but most industries reported that hours worked were unchanged. While modest improvement is evident, very few contacts reported intentions to hire new workers or recall temporarily laid-off workers. The exception appears to be the trucking and shipping industry, however, where contacts reported that some companies have begun to reinstate workers that were temporarily laid-off and hire new workers. For the most part, contacts across all industries expected labor market conditions to continue to improve.

Manufacturing

Conditions continued to improve in the manufacturing sector during the month of March and the first two weeks of April, but contacts reported several contrasts. The northern part of the District, where growth was strong in the last report, noted slowing improvements (but still expansion), a drop in new orders, and the delay of capital expenditure plans. On the other hand, the southern part of the District, which had reported relatively stagnant conditions in the last report, saw marked improvement in conditions, an increase in new orders, and growing optimism for the year.

Automakers in the District reported more overtime for the month of March and the first two weeks of April than during the first two months of the year, but one automobile plant also reported closing for one week during the same time due to slumping demand for its model. In the steel industry, contacts reported that spot prices continue to improve. Most contacts estimated that spot prices were up roughly 25 percent in March 2002 compared with December 2001. Spot prices, however, are down roughly 20 percent compared with March 2000.

Retail Sales

Most retailers reported year-over-year increases in sales ranging from two percent to nine percent during March, but cautioned that these increases were likely due to a relatively early Easter. Most contacts expect a year-over-year decline in sales for April. Home-related products continued to sell well, and apparel retailers, who had reported poor sales at the start of the year, reported that sales increased considerably during March and the first two weeks of April. Most retailers continued to run lean inventory positions, and contacts noted that they were running fewer promotions and marking down products less than usual for this time of year. Most retailers expect flat or small gains in sales for the coming months but expect higher demand during the latter part of 2002 than was seen in 2001.

Automobile dealers in the District reported a wide range of growth for the first three months of 2002 (reports ranged from a year-over-year gain of 20 percent to a decline of 40 percent for the same period). The pace of sales has been steady over the first three months of the year, and dealers reported that if sales continue to be steady throughout the year, they will meet or exceed the record sales levels realized in 2001. Most dealers, however, do not expect to meet last year's levels, stating that the strong sales during fourth quarter 2001 combined with rising gas prices will likely depress automobile sales for the last half of the year.

Construction

Business conditions have remained relatively stable for commercial and residential builders since the start of the year. Homebuilders reported that sales and customer traffic during March and the first two weeks of April were about equal to that seen during the same time last year, but unlike last year, most builders have resorted to offering incentives to attract buyers.

Commercial builders were slightly less upbeat in this report -- many were more optimistic about the outlook for 2002 in the last report, as customer inquiries had increased steadily since the beginning of the year. Most builders had expected the bulk of these projects to already be

underway; however, many remain in the planning stages. Still, commercial builders expect to be very busy in the coming months.

Trucking and Shipping

Contacts reported moderate increases in the volume of manufacturing-related goods shipped, but noted that improvements in volumes shipped for most other goods were, at best, very modest. Although industry conditions continued to improve, profit margins remained slim. Diesel costs have risen over past several months, and contacts reported that their energy-associated surcharges are on the rise, moving from around zero percent to two percent or more. Rising insurance costs remain a major concern for companies, and excess capacity in the industry has left companies very little pricing power. Slim profit margins have required companies to continue to be frugal when it comes to their capital expenditure plans.

Banking

Contacts reported that lending activity across the District accelerated, but competition for borrowers across all lines of lending continued to be very aggressive. Mortgage activity in the District increased and appeared to be shifting back towards the purchase of homes rather than refinancing of existing loans. Overall demand for consumer loans increased, but demand for commercial loans varied across the District, with some contacts reporting an increase, some reporting no change, and some reporting a decrease in demand. Reports regarding the creditworthiness of applicants also varied, with a similar number of contacts reporting improvement, no change, or a decline in the credit quality of applicants. Among consumers already holding loans, most banks reported no change in the rate of loan delinquencies, but two noted a decrease in the delinquency rate.

Agriculture

Winter crops are faring well, and farmers reported that livestock prices remain fair. Wet weather has not allowed farmers to begin their spring planting, but this is not yet a concern. Farmers noted mixed price trends for their inputs: although prices for nitrogen and feed for livestock have declined significantly, diesel prices have been on the rise. On balance, however, agricultural lenders reported that farmers are remaining current on their loans.

FIFTH DISTRICT—RICHMOND

Overview: The Fifth District economy expanded at a modest pace in March and early April, led by solid growth in the manufacturing and retail sectors. At District manufacturing plants, shipments and new orders expanded for the third consecutive month in March. In addition, shopper traffic picked up and sales grew moderately at retail establishments, despite continued softness in big-ticket purchases. The services sector lost some traction in recent weeks—revenues and employment were little changed since our last report. Home sales remained strong in most areas of the District and office and retail leasing activity picked up. Bankers reported that loan demand was generally stable but noted that residential mortgage refinancing activity waned as mortgage interest rates ticked up. Employment continued to trend downward in manufacturing, and grew at only a modest pace in most other sectors. In agriculture, spring rainfall brought relief to parched cropland, but unusually cold weather damaged small grains in some areas.

Retail: Retail sales rose at a moderate pace in March and early April, while employment in the sector held steady. Automobile dealers reported that sales were generally flat to modestly higher. An auto dealer in the Tidewater area of Virginia, however, said that the departure of military personnel from the area had reduced his sales. Retail stores, including big-box and smaller department stores, reported modest revenue growth, despite somewhat sluggish sales of big-ticket items. Employment in the retail sector stabilized in recent weeks, after having fallen in February.

Services: Services businesses reported little net change in revenues and employment in the weeks since our last report, although individual businesses' experiences differed. Contacts at several hotels in the District said that demand for hotel rooms for business travel had increased and that they had hired additional staff. A hotel manager in Charlotte, N.C., said that conference bookings were substantially higher. A caterer in Charleston, W.V., reported demand for catering services for business functions had increased, resulting in more hiring and equipment purchases. Along a different line, a contact at a North Carolina media company reported growth in advertising revenue for the first time in a year—a situation he described as, “too good to be true.” Not all reports were rosy, however. A healthcare services organization in central North Carolina said hiring was flat, other than for difficult-to-fill high-tech positions. Businesses dependent

on federal government contracts also reported little additional hiring, in part because of uncertainty regarding federal budgets.

Manufacturing: District manufacturing activity expanded in March for the third straight month. Manufacturing contacts reported strong growth in shipments and new orders—the textiles and apparel, paper, and printing industries reported that shipments growth was particularly strong. A textiles manufacturer in North Carolina said that his company’s shipments and new orders were higher in March and noted that its plants were operating “seven days a week, 24 hours a day.” He said demand was boosted partly by a resurgent economy but also by the bankruptcies of several competitors, giving his company more market share. Textile industry contacts who produce upholstery also noted that demand had been higher than expected in recent months—a North Carolina respondent said that his plants had been “running more hours” as demand for home furnishings picked up. A contact at a paper company in Charlotte, N.C., said that his business activity had picked up as many of his customers reported increased product demand. Manufacturing employment declined in recent weeks, but at a slower pace than earlier in the year.

Finance: District loan officers reported generally steady lending activity in the weeks since our last report. According to commercial lenders loan demand remained sluggish in March and early April, but they were somewhat more optimistic about lending prospects in coming months. A commercial lender in Charleston, S.C., told us that his clients continued to curtail or delay capital spending plans, although he said that in recent weeks there were signs of an increase in planned capital spending. A banker in Richmond, Va., for example, said that companies were reevaluating projects that had been put on hold. She noted also that in the aftermath of September 11, government contractors in Northern Virginia involved with security or national defense increased their borrowings. In mortgage markets, residential lenders said that loan demand continued to be fairly strong; one noted, however, that the “bloom was off the rose” in refinancing. In addition, a Greenville, S.C., banker said that demand had dropped from “extraordinarily strong” to just “strong,” because of slackening refinancing activity.

Real Estate: Residential realtors and homebuilders reported strong growth in home sales since our last report. A Washington, D.C., realtor said his agency was

experiencing the best sellers' market ever, particularly for higher-priced homes. A homebuilder in the Tidewater region of Virginia told us that sales were "going gangbusters," with exceptionally strong activity across all price ranges. A real estate agent in Richmond, Va., also reported that home sales were doing well across all price ranges and said that prices were escalating rapidly. A realtor in Greensboro, N.C., however, was less sanguine, noting that while "homes were selling," realtors were cautious about prospects for future home sales if mortgage rates rise further. Several builders reported upward pressure on lumber prices and labor costs.

Commercial realtors reported generally stronger leasing activity across the District in recent weeks. The largest gains occurred in the office and retail sectors, while one contact described the industrial sector as just "chugging along." Despite the recent rise in activity, vacancy rates continued to edge up across all commercial sectors; a Cary, N.C., realtor noted that the market was "draining faster than it was filling." Rental rates per square foot weakened across all commercial real estate sectors, and a contact in Greenville, S.C., reported that property owners were still offering brokers incentives such as vacations, golf clubs, and in one instance, a Harley-Davidson motorcycle, to attract interest in their properties. While there were scattered reports of new construction in the office and retail sectors, construction activity remained generally flat in the industrial sector.

Tourism: Tourism strengthened in March and April. A contact at a mountain resort in West Virginia told us that the ski season broke records for both revenues and visits. Respondents on the Outer Banks of North Carolina and in Myrtle Beach, S.C., reported that tourist activity in recent weeks had been very steady, in part because of warm weather and an early start to the spring tourism season as a result of Easter falling in March. Bookings for summer home rentals in beach areas were reported to be extremely strong. In Washington, D.C., tourism leaders said that the city's hospitality industry was showing signs of recovery. They noted that the hotel occupancy rate in March was 85 percent—only 4 percentage points below the rate of a year ago. In addition, the National Cherry Blossom Festival held in March and early April in Washington, D.C., attracted approximately 700,000 visitors, about the same as last year's attendance.

Temporary Employment: District temporary employment agencies reported somewhat stronger demand for workers since our last report and generally expected demand to strengthen further over the next few months. A contact in Charlotte, N.C., noted that a rebound in the local economy had prompted some area companies to rehire staff. Likewise, an agency contact in Hagerstown, Md., said he was “seeing signs of improvement” in the demand for workers because of a stronger economy there. Most agency contacts, however, continued to report some difficulty in securing clients.

Agriculture: After a mild, dry winter, moderate rainfall in late March and early April improved soil moisture conditions in most areas of the District. Corn planting was underway and on schedule in some counties in Virginia and nearly completed in parts of South Carolina. Pastures responded to rainfall in North Carolina, reducing the need for supplemental feeding in that state. Cool and windy conditions in Virginia, however, slowed pasture growth causing farmers to continue supplemental feedings. But some weather-related problems persisted. A cold snap in early April slowed the development of peaches, apples, and strawberries in Maryland, and injured small grains in Virginia.

SIXTH DISTRICT – ATLANTA

Summary: Sixth District contacts reported that conditions in most sectors continued to improve during March, and contacts were generally optimistic about future prospects. First-quarter retail sales rose modestly from a year earlier, but District auto sales were below national trends. Residential housing markets were robust, whereas commercial real estate markets continued to suffer from weak demand. Reports from the manufacturing sector indicated that factory activity in the District was improving. Reports on tourism were also encouraging, and industry contacts suggested a favorable short-term outlook for that sector. District employment has not risen significantly, but firms were reportedly hiring more temporary staff, and extending work hours in the manufacturing sector. Significant price increases were reported in health care, insurance and fuel.

Consumer Spending: Contacts reported that first-quarter retail sales were up modestly compared with last year. Easter results were described as flat to up slightly compared with a year ago. About one-half of the retailers contacted said that March sales were in line with expectations. Most merchants indicated that inventories were balanced, although a few noted higher than desirable inventory levels. The outlook for second-quarter retail sales is generally positive. Car sales in the District remained disappointing in March, although some improvement from February levels was noted. According to contacts, car sales in the District lagged behind the rest of the country, and some heavily advertised car and truck segments failed to reach their sales objectives for the first quarter. A modest improvement in sales during early April was noted in some reports.

Real Estate and Construction: Favorable buying conditions continued to boost single-family housing activity in the District during March, and the outlook by industry contacts

remained upbeat. According to real estate brokers, March home sales were flat to slightly up compared with a year ago in Alabama, Florida, Louisiana and Tennessee; Georgia results were more mixed and Mississippi's were described as weak. The strongest market was for mid-priced homes, and some Florida Realtors reported a shortage of homes on the market. Led by the strength in Florida, District housing construction ranged from flat to up significantly in March compared with last year. In contrast, commercial real estate markets remained weak across the District in March and new construction was limited. Vacancy rates rose in the first quarter as office and industrial space continued to suffer from weak demand.

Manufacturing: Reports from the manufacturing sector were mixed, but some signs of improvement emerged during March. Firms producing health-care equipment noted increasing orders. Building supply firms reported stronger orders for residential construction products, although weak commercial real estate markets continued to plague suppliers. Most manufacturing contacts are maintaining lean workforces, preferring to expand work hours rather than hire additional workers as production increased. Most capital expenditure plans remained limited. However, some high-tech companies had rehired workers to finish projects that were put on hold last year. The auto industry continued its expansion in the Southeast with the announcement by Hyundai that it will locate its first U.S. auto plant near Montgomery, Alabama. The plant is expected to generate around 2,000 jobs and provide a significant economic boost to a region hurt by job losses in the textile and apparel industries.

Tourism and Business Travel: Most reports indicated continued improvement in the District's hospitality and tourism sector after last year's steep decline. Florida theme parks and resorts were busy in March and were adding to payrolls. Rental car prices increased and cruise lines were operating at near full capacity without the need for deep discounted pricing. Contacts

noted some concern about the possible negative impact of rising fuel prices on the number of visitors driving to District tourist destinations this summer.

Financial: Consumer lending remained strong across the District in March. Contacts reported that the volume of problem loans increased but remained at manageable levels. Real estate loan growth was strong, and no significant deterioration in credit quality was reported. Little new activity was noted in the venture capital sector, and direct business lending remained lackluster.

Prices and Labor: Increased insurance and health-care costs were noted by businesses across the District. In addition, petroleum prices spiked higher in March, and construction industry contacts reported an increase in the prices of metal products. According to contacts, most companies in the District remained reluctant to add significantly to permanent payrolls in the short-term. However, some reports noted increasing use of temporary workers. Skilled health-care workers remained in short supply in most of the District.

Trade: According to contacts, trade disputes over steel and poultry affected port traffic in Georgia, Mississippi, and Louisiana. Steel shipments through the Port of New Orleans were down sharply in March. Russia's ban on U.S. poultry exports reduced outbound shipping at Gulfport and Pascagoula. The poultry export ban is a significant blow to the District's poultry industry, which had been expanding shipments to the Russian market over recent years.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District appeared to improve in March and early April, although reports from our contacts remained mixed. Comments on consumer spending varied, but were generally more positive than in our last summary. Residential real estate and construction markets eased somewhat, but nonresidential markets appeared to stabilize. There were further signs of improvement in the District's manufacturing industries, but with only modest increases in new orders and production. Overall lending activity slowed as demand for household loans softened. Labor markets remained relatively slack, but there were more frequent reports of hiring. Retail price pressures were again generally subdued, but there were isolated reports of price increases at the producer level. Spring planting began in the south and central portions of the District, but wet/cold soils slowed progress. It is still early in the season, however, and weather forecasts portend a normal pace for spring planting.

Consumer spending. Consumer spending was mixed in March and early April, but there were some signs of strengthening in a few key segments. Retailers indicated that sales picked up modestly in late March and early April, with discounters continuing to outperform general merchandisers. Consumables, entertainment equipment, and toys were said to be selling well, while apparel sales were soft. Inventories were reportedly at desired levels, but merchants still increased promotional activities. Some retailers noted that sales growth in the Midwest was equal to or slightly better than the national average, following several months of lagging sales. Movie theater ticket sales remained robust, according to one contact who added that spending on extras (popcorn, snacks, etc.) had increased recently. Contacts in casual dining reported that sales growth was somewhat soft again, with results in the Midwest still a little weaker than in other regions. With regard to light vehicle sales in the District, Iowa dealers reported strong increases while Chicagoland dealers reported substantial decreases. Reports on tourism and travel were mixed. A contact with one large airline indicated that the company added capacity back into the market primarily in response to increasing demand for international travel; overall capacity was still 10 percent to 15 percent below year-ago levels. The majority of District states reported that other tourism and travel-related industries remained soft. Contacts said that price-conscious consumers helped keep a lid on prices, pressing retailers to offer more discounts and/or discouraging them from implementing planned price increases.

Construction/real estate. Real estate and construction activities were mixed in March and early April, as residential sales appeared to soften somewhat, while some reports suggested firming on the nonresidential side. Sales of both new and existing homes softened modestly during the period. A realtor in one large metro area noted that existing home sales in March were off roughly 7 percent from a year ago, and a builders' association contact in the same area reported similar results for new home sales. Many contacts noted that softness persisted in sales of homes at the upper end of the price range, and there were isolated reports that sales in the trade-up markets weakened recently as well. Sales in the lower price ranges generally remained robust. On the commercial side, contacts in many areas reported that office vacancy rates were stabilizing after several months of more or less steady increases. At the same time, there were scattered reports that some sublease space was being pulled off the office market by tenants who had overestimated the business slowdown and subsequently underestimated their office space needs. Despite signs of firming demand, contacts suggested that landlords continued to lower office rental rates and increase incentives to prospective tenants in order to fill empty space.

Manufacturing. Manufacturing activity appeared to pick up modestly, but growth in production and new orders was slow. At the same time, many contacts expressed optimism that the manufacturing sector was improving. Automakers reported that light vehicle sales nationwide remained strong in March and early April. Manufacturers also noted that light vehicle inventories were lean, down approximately 12 percent from a year ago, and below desired levels. Largely due to increased orders from the auto sector, steel production increased significantly in recent months, from very low levels in the fourth quarter of last year. Some producers were said to be rebuilding lean steel inventories, and prices were reportedly increasing to "real world (above cost)" levels. A producer of gypsum wallboard noted that demand remained strong for construction materials, prompting the company to announce a 15 percent increase in wallboard prices for the second quarter, with about half of that increase expected to stick. In the telecommunications industry, one contact reported that demand for equipment firmed in recent weeks, adding that the industry was recovering quicker than expected. Heavy truck orders continued to surge ahead of an October 1 EPA regulation change, but new orders for and production of other heavy equipment remained relatively soft and basically unchanged from our previous report. Outside of the exceptions noted above, the pricing environment remained very soft for manufacturers.

Banking/finance. Overall lending activity slowed somewhat in March and early April, as demand for household loans abated modestly. According to our contacts, mortgage refinancing applications slowed significantly from the torrid pace of the fourth quarter; the level of new mortgage applications was still strong, but down in some areas. Credit card borrowing was said to be soft, which one contact attributed to the lingering effects of record mortgage refinancing in the fourth quarter of 2001. Reports on consumer credit quality were mixed, with some bankers noting a sharp drop in delinquencies and defaults, while others noted significant increases. The vast majority of our banking contacts said that business loan demand and volumes were flat in March and early April. While many lenders indicated that business sentiment was improving, there were few signs that any optimism was translating into increased loan demand. Most contacts also noted that the deterioration in business loan quality had leveled off, with one describing it as steady but “fragile.” There were no changes to lending standards or terms reported. Loan margins were said to be good and increasing for some products, and a few lenders noted improved profitability.

Labor markets. Labor markets remained fairly soft, but there were a few reports of increased demand for workers in some industries. Contacts in some of the most heavily industrialized states reported a pickup in demand for manufacturing workers, particularly from producers of consumer durables. At the same time, layoff announcements were said to be slowing in many areas. Despite the pickup in demand, labor markets remained relatively slack in most areas; contacts again indicated that labor shortages were virtually nonexistent and wage pressures were subdued. A contact with a large national staffing company said that its average hourly wage increase was about 2 percent in the first quarter, down from nearly 7 percent in the first quarter of 2001.

Agriculture. Corn acreage in Seventh District states is expected to increase a little over 3 percent from a year ago, as compared with a 4 percent gain for the nation overall, according to the USDA’s initial planting expectations. Soybean acreage in the five states is expected to decline about 2 percent, proportionally a little larger reduction than for the nation overall. As of mid-April, substantial seed-bed preparation was in progress in the southern and central portions of the District, but recent rainfall and cold soil temperatures had retarded planting operations. Contacts indicated that if forecasts for “good drying days” and air temperatures in the 60s and 70s at mid-month hold, corn planting soon would be in full swing.

VIII-1

Eighth District - St. Louis

Summary

Economic activity in the District has picked up considerably. In particular, many firms in the manufacturing sector have experienced increased sales and orders and, as a result, are expanding production and employment. Retail and auto sales have remained steady, while residential real estate sales have been strong throughout the District. Although commercial real estate markets continue to be weak, commercial construction has been strong. Total loans outstanding at small- and medium-sized banks have risen, as have deposits. Unfavorable weather has hampered spring planting in the southern part of the District, although the mild winter has led to a good-to-excellent winter wheat crop in most areas.

Manufacturing and Other Business Activity

The District manufacturing sector has been gaining strength. Contacts report an increase in sales and orders, which has led many firms to expand employment and hire back employees who previously had been laid off. Manufacturers reporting increased orders include those in the furniture, boats, airplanes, steel, food and drug, apparel, and auto parts industries. Several contacts note that some of the increase in activity stems from contracts with the U.S. Defense Department for items including camouflage clothing and military aircraft parts. While the manufacturing sector is still seeing closings and bankruptcies, there has been more good news than bad.

Retail sales held steady in the Eighth District. A few contacts report that sales have been higher at discount stores than at department stores and malls, although mall traffic is noted to be relatively normal for this time of year. Auto sales have been mixed, with reported sales levels ranging between good and flat. Additionally, while some dealers report increased sales of used vehicles, others report that it has been new vehicles that have been selling well. Several dealers

report that their inventories of new vehicles are a little lower than usual as they take a “wait and see” approach to ordering.

Real Estate and Construction

Reports from each of the District's metropolitan areas indicate that residential real estate sales have been strong since the beginning of the year. Sales volumes in Memphis and Little Rock were higher in January and February than a year earlier. Realtors in several northern Mississippi markets report improved sales are correcting the oversupply of homes in those markets. Sales of new homes in Louisville are higher than normal for this time of the year. Nonetheless, slow sales in homes valued over \$250,000 reflects caution among District homebuyers. The Memphis market for industrial space recorded lower absorption for 2001 than for 2000, leading to lower lease rates in 2002. The lease rate for commercial space in Little Rock remains steady. Net absorption and construction of office space in St. Louis continued to decline in the first quarter.

Residential and commercial construction has been strong in the District, despite the slump in the markets for office space. In all District metropolitan areas the number of building permits issued in February was higher than that for February 2001. Commercial construction in Arkansas has picked up, with large projects concentrated in central and northwest Arkansas. Public construction projects and work on dams have kept commercial construction steady in western Kentucky. Commercial contractors in Memphis expect a delay in new projects until they see lower vacancy rates for industrial space.

Banking and Finance

Total loans outstanding at a sample of small- and medium-sized District banks were up slightly by 0.5 percent between late January and late March this year. Loans to individuals and to other commercial banks in the country have decreased significantly: 7.4 percent and 7.2

percent, respectively. Over the same period, the decrease in real estate loans was a milder 2 percent, while commercial and industrial loans increased by a relatively small 1.3 percent. Some contacts attributed the slowing of loan growth to more-stringent underwriting. Total deposits at these banks increased by 1.6 percent during the period. Contacts in northeast Mississippi, west Tennessee, and Arkansas report high levels of bankruptcy filings and foreclosures.

Agriculture and Natural Resources

The weather across the District included abnormally cool temperatures and considerable rainfall in March and early April, leading many farmers in the southern part of the District to fall behind modestly in field preparation and planting. After a relatively mild winter, the District's winter wheat crop is in good-to-excellent condition in many areas. Exceptions to this are northern Mississippi and Arkansas, where contacts report that heavy rains have damaged some of the crop. One contact reports that as much as 10 percent of Arkansas's crop will not be harvested due to flooding and that another 15 percent of the crop was severely damaged.

Farmers in the northern portion of the District expect to plant slightly more corn acreage this year, which will be offset by slightly reduced soybean plantings. Mississippi farmers, however, intend to increase soybean acreage. Contacts report that the unresolved federal farm bill has led to uncertainty about loan rates for soybeans. This may contribute to a decline in planting intentions and affect producers' ability to obtain financing. Cotton farmers in the southern portion of the District expect to plant about 11 percent fewer acres this spring, substituting corn and rice for cotton on some acreage. This follows the significant drop in cotton and cottonseed meal prices. Partly as a result of a Russian ban on U.S. poultry imports, the quantity of poultry on the market increased over the last month and poultry prices have declined modestly. Meanwhile, cattle prices have also declined modestly, while hog prices have declined substantially.

NINTH DISTRICT--MINNEAPOLIS

Overall economic activity in the Ninth District grew modestly during March and early April. Residential construction activity is strong, while consumer spending, tourism, manufacturing and mining are up slightly. Meanwhile, the energy sector is level, and commercial construction and agriculture are down. From early March to early April, labor markets loosened somewhat as previously announced layoffs took effect, while overall wages and prices were stable. However, price increases in gasoline, property insurance premiums and steel were noted.

Construction and Real Estate

Commercial construction is down somewhat, but builders are cautiously optimistic about upcoming activity. Contracts awarded for heavy construction projects in Minnesota and the Dakotas decreased 15 percent during the three-month period ending in February compared with last year. However, the state of Minnesota plans to spend a record amount on summer road construction projects. A commercial real estate firm representative noted that leasing activity was slower in February and March compared with a year ago in the Minneapolis-St. Paul area, but buying has been active due to low interest rates. While the dollar value of permits year to date through February is down compared with a year ago in Sioux Falls, S.D., builders are expecting a “good as ever” second half of the year, according to a city official.

District home building is solid. Housing units authorized were up 28 percent for the three-month period ending in February compared with a year earlier. In Minneapolis-St. Paul, planned units in March were up 8 percent from a year ago due to strength in the multifamily sector. A home-remodeling store in the Minneapolis area reported strong sales in February and March. A builders association representative in the Upper Peninsula of Michigan expects a good construction season, slightly ahead of last year.

Consumer Spending and Tourism

Consumer spending is up slightly from a year ago. A major Minneapolis-based department store retailer reported that overall same-store sales in March were almost 7 percent higher compared with a year earlier. A manager of a Montana mall said same-store sales were 3 percent higher in February compared with last year. A mall manager in the Minneapolis area reported generally solid traffic and sales during March compared with a year ago, but slow sales for higher-end merchandise. Two other Minneapolis area malls reported that recent sales were somewhat softer than last year.

Auto sales at two Minnesota dealers picked up in March from January and February levels, according to a bank director. More interest than expected from would-be buyers was reported at a recent auto show in Minneapolis-St. Paul. Steady auto sales were reported in North Dakota, according to an auto dealer representative.

Early spring tourism is up slightly in several areas and tourism officials are optimistic for the summer. The World Curling Championships brought thousands of people to Bismarck, N.D., in April. Businesses in northwestern Wisconsin that rely on skiing and snowmobiling noted improvement during a snowy March compared with January and February. Recent tourism activity in the Upper Peninsula was slightly higher than a year ago; meanwhile, summer reservations at resorts and campgrounds are ahead of last year.

Manufacturing

Manufacturing activity is up slightly. A March survey of purchasing managers by Creighton University indicated robust increases in manufacturing activity in the Dakotas and small decreases in Minnesota. In North Dakota, an ethanol producer plans to add a manufacturing facility. In South Dakota, a company that manufactures automotive air and oil filters is currently expanding capacity. A paper mill in Minnesota will close; however, a military supply manufacturer in Minnesota reported strong recent order volume and is optimistic about the near future. A plastic manufacturer is expanding capacity at a western Wisconsin facility. A metal fabricator is constructing a facility in the Upper Peninsula. Due to strong demand, a Montana lumber company recently completed a major expansion to a board plant, according to a Montana bank director.

Mining and Energy

Activity in the energy sector is level, while increases are noted in the mining sector. Late-March district oil and natural gas exploration and production levels were about even with the levels of mid-February. Meanwhile, the iron ore industry is expanding, as a mine in the Upper Peninsula recently reopened after a three-month shutdown and a taconite plant in northern Minnesota restarted after a four-week shutdown. In addition, an experimental iron nugget plant is planned for northern Minnesota. Meanwhile, recent Montana mining activity is about even with January and February levels, according to a state official.

Agriculture

Early spring snowstorms somewhat aided ground moisture but stressed livestock producers. The storms were not enough to help the winter wheat crop in Montana, as the U.S. Department

of Agriculture (USDA) reported that nearly two-thirds of the crop was rated as “very poor” or “poor” and declared Montana a drought disaster area. Although the majority of calving and lambing is complete, the USDA reports that the snow and cold conditions made calving and lambing a little difficult, with some deaths reported.

Employment, Wages and Prices

Labor markets loosened slightly as previously announced layoffs took effect. An Internet and catalog retail distributor laid off 2,400 workers in Minnesota. The closing of an abrasives manufacturing plant will result in 300 layoffs in the St. Paul area. The recent announcement of a paper mill closing in Minnesota will produce 616 layoffs. At a recent job fair in Sioux Falls, the number of job-seekers was up from previous years, while the number of employers with open positions appeared to be down. Initial claims for unemployment insurance benefits in Minnesota were 11 percent higher in March than a year earlier.

However, a few companies plan to increase hiring. A major Minnesota-based airline announced plans to permanently add 500 ground-worker jobs after laying off 9,600 employees companywide following Sept. 11. Recent plans for new a light assembly and distribution site in northwestern Wisconsin is expected to add 300 new jobs by 2005. In Duluth, Minn., a health insurance company will hire 120 employees by year’s end. According to a recent survey of manufacturers in Minnesota, 22 percent of respondents expect employment to increase at their firm during the first half of 2002 from second half of 2001 levels; up from 6 percent six months ago.

Overall wage increases are moderate. Hourly wages for district manufacturing workers increased at an annual rate of 3.1 percent for the three-month period ending in February. Average wages and employee benefits for grocery workers in the St. Paul area will increase 12 percent over the next three years, according to a tentative contract agreement.

Overall price increases are also moderate, but significant hikes are noted in gasoline, property insurance and steel. Nearly two-thirds of the respondents to the survey of manufacturers in Minnesota expect prices to be level in the first half of 2002. As of April 8, gasoline prices increased about 20 cents in Minnesota from a month earlier. Homeowners in Minnesota have noted increases in insurance premiums, ranging from 6 percent to 22 percent compared with a year earlier. Hot-rolled steel prices have increased about 20 percent from three months ago.

TENTH DISTRICT - KANSAS CITY

Overview. While still somewhat weak, the Tenth District economy showed distinct signs of improvement in March. Manufacturing activity remained well below year-ago levels but the slump appeared to be ending. Residential real estate activity also strengthened in most of the district, and retail sales remained solid. On the negative side, however, energy activity was still sluggish and commercial real estate remained very soft. In the farm economy, the district's winter wheat crop was in below average condition following a dry winter. District labor markets remained slack, with wage pressures subdued. Retail prices held steady, while prices for some manufacturing and construction materials increased.

Consumer Spending. Retailers reported steady activity across much of the district in March, with sales remaining above year-ago levels at most stores. Home furnishing items continued to sell particularly well across the district, while apparel sales were down in several places. Retailers continue to expect sales to increase in coming months, and have thus been building inventories. Most stores are now satisfied with their stock levels. However, several managers reported they were prepared to begin discounting prices again to move merchandise if sales fail to meet expectations. *Tourism activity at mountain resorts in the district continued to hold up relatively well in March.* However, advanced bookings for the summer season were slightly lower than a year ago. Motor vehicle sales in the district also held steady in March, although they were somewhat below year-ago levels. Sales of SUVs and light trucks continued to be stronger than for cars. Dealers remained cautiously optimistic that sales would resume increasing in the summer.

Manufacturing. District factory activity showed clear signs of bottoming out in March following a long decline. While production and shipments remained well below year-ago levels, more managers were reporting increases in capacity utilization than in past surveys. In addition, expectations for future activity continued to rise. For the first time since last summer, there were as

many firms planning increases in capital expenditures over the next six months as planning decreases. Moreover, most managers have stopped trimming inventories. Manufacturing materials remained generally available, although there were some reports of delays in receiving steel shipments.

Real Estate and Construction. Residential real estate activity improved in most of the district in March, while commercial real estate markets remained in a slump. Except in Colorado, builders reported increased residential construction activity, a trend that is expected to continue. Realtors also reported increased home sales outside of Colorado. In Colorado, inventories of unsold homes remained above year-ago levels but, despite the overall weakness in residential real estate, there were reports of steady demand for entry-level houses in Denver and for luxury homes in resort areas. Mortgage lenders reported an increase in demand for home loans, with most of the activity coming from home purchases rather than refinancing. Mortgage demand is expected to remain strong through the summer. Commercial realtors continued to report weakness in most district office markets. Office vacancy rates appear to have stabilized in recent months, but remain high in many areas, especially suburban Denver. Commercial construction activity has also eased, due in part to tighter lending standards. With absorption still low, most contacts expect the weakness in the office sector to persist.

Banking. Bankers reported that loans remained unchanged and deposits edged up since the last survey, reducing loan-deposit ratios slightly. Demand held steady for all major loan categories. On the deposit side, demand deposits and NOW accounts increased, money market deposit accounts and large CDs remained unchanged, and small time deposits edged down. Respondent banks held their prime lending rates and consumer lending rates steady and do not expect to adjust these rates in the near term. Lending standards outside of commercial construction loans were generally unchanged.

Energy. Energy activity in the district edged down in March, leaving the count of active oil

and gas drilling rigs in the region the lowest in two and a half years. However, district oil and gas firms remain optimistic about future activity due in part to recent price increases, and they continue to report new investments in drilling equipment. Wyoming coal producers, on the other hand, expressed some concern about softening prices due to the relatively mild winter.

Agriculture. The district's winter wheat crop was in below average condition after an unusually dry winter. Despite recent rainfall, soil moisture remains inadequate. The dry weather has also hurt pastures and depleted pond water, creating concern for district ranchers going into the grazing season. District bankers expected farmers to make little financial improvement this year with low crop prices and weaker livestock prices. As a result, bankers and their farm borrowers are taking a cautious approach to farm debt. Bankers indicated that small and farm-related businesses in rural areas continue to struggle.

Wages and Prices. District labor markets remained very slack in March. Shortages of workers were reported for only a few occupations, including nurses and most kinds of building tradesmen. Outside of these occupations, firms reported no difficulties in hiring workers and wage pressures were virtually nonexistent. Many firms reported substantial decreases in turnover rates over the past few months, and some said they experienced sizable increases in applications for open positions. Looking ahead, for the first time since last summer more manufacturers expect to add workers than expect to cut them during the next six months. Retail prices were flat in March and are expected to remain steady as long as sales hold up. Prices rose significantly for several manufacturing materials, including steel and petroleum-related products. Many manufacturers expect further price increases for these materials. Prices for several construction materials, including lumber and gypsum wallboard, were also edging higher. Lumber prices are expected to continue rising.

ELEVENTH DISTRICT—DALLAS

Eleventh District economic activity remained weak in late-February and March but showed signs of improving in the first half of April. Contacts remain cautious about the outlook. Manufacturing activity and retail sales continued to be weak but also showed signs of picking up. Construction and real estate conditions remain weak, and energy production activity continues to decline despite higher oil and natural gas prices. There was little change in financial conditions. Agricultural conditions are dry, and selling prices for major crops are below the cost of production.

Prices and Labor Markets. Energy prices have increased sharply since the last beige book, leading many industries to express concern about rising costs. Oil and natural gas prices are significantly higher. Gasoline prices are up 20 percent over the past 6 weeks as strong demand and limited production reduced inventory at a time that the industry is normally building inventory for the summer. Rising feedstock prices and sporadic outages of key facilities have boosted petrochemical prices. Prices are up for petroleum-based packaging products, but competition is limiting producers' ability to pass along cost increases.

Soaring prices for all types of insurance remains a concern for all industries. One contact suggested that the significant increases in worker's compensation and employee health insurance premiums was discouraging business owners from expanding their payroll.

Layoffs appear to be subsiding, and there are a few reports of hiring or longer work hours. Contacts say that it is a good time to pick up quality workers at a relatively low cost. However, several contacts said uncertainty is restraining hiring.

Manufacturing. Manufacturing activity is showing signs of picking up. Sales were slightly higher for many high-tech products. Semiconductor manufacturers say there are continued signs that a recovery has started, but a recent pause in activity has made them less sure about its strength. Computer sales to consumers and businesses remained sluggish. Sales of consumer electronics, other than personal computers, were reported to be growing at a healthy rate. Most respondents said that inventories remain very tight, but one contact noted a pickup in semiconductor inventories might be a problem if sales are weaker than expected in the second half of the year. Telecommunications contacts say their customers continue to delay capital spending, postponing hopes for the industry's recovery.

Lumber sales have picked up in the past few weeks, mostly due to renewed strength in residential construction and remodeling. Reduced capacity in the lumber industry has added to an improved industry outlook. Demand for metals is down, particularly for construction-related metals. Producers of cement, concrete, brick, tile and glass reported little change in demand over the past six weeks, with some increase in activity due to favorable weather conditions.

Food manufacturers say demand is down from three months ago but unchanged over the past few weeks. Food producers expect demand to pick up because they believe their customers inventories are low.

Paper producers said demand has picked up some in the Dallas area, but sales remain below the levels of a year ago. Demand for apparel products also increased, which contacts believe is mostly due to retailers increasing their inventory levels. The apparel industry continues to reduce costs by shifting operations out of the United States. Several apparel plants in Texas have already shut down, two are slated to close in August and there was a recent announcement of another facility closing in October.

Demand for petrochemicals has increased but profit margins remain thin. Customers reduced their inventory when prices were falling, but rising costs have pushed up selling prices and extensive inventory restocking throughout the supply chain is boosting orders.

Refiners cut back production and extended maintenance programs in the first quarter in response to very weak profits. Capacity utilization fell below 90 percent in March but has started to increase over the past couple of weeks in response to higher profit margins.

Services. Demand is showing signs of increasing for most business services. Temporary staffing and other business service firms say demand is picking up, thanks to growing activity from manufacturers. Legal contacts reported a slight increase in demand, especially for litigation and bankruptcy activity. Transactional and real estate activity is steady, while activity is slow for corporate financing, mergers and acquisition.

Demand for transportation services continues to “drag along bottom, well under water.” Respondents are “very cautious looking ahead” because overall demand remains depressed and costs are higher than a year ago—notably for fuel and to finance larger debt.

Retail Sales. Retailers said that sales showed signs of improving but the level of sales remained weak. Consumers continue to be cautious, according to contacts. Auto sales were

slower than in previous months. Contacts continue to be pleased with sales levels but expressed concerns that rising interest rates will dampen sales.

Financial Services. Financial service contacts reported little change in activity. Lending and deposit levels are mostly unchanged, with a few contacts reporting increases. Credit standards were unchanged since the last report, according to bankers, but competition for C&I loans remains stiff, particularly in Houston.

Construction and Real Estate. Construction and real estate conditions remained weak over the past few weeks. Overcapacity and weak demand plague office markets. The opening bid for office space in downtown Dallas includes 12 months free rent, and effective rental rates have declined 40 percent or more in many areas, according to contacts. Special financing and other incentives helped spur sales, particularly for new homes priced below \$150,000. Sales of higher priced homes remained sluggish, however.

Energy. Drilling activity continues to decline despite sharp increases in oil and natural gas prices. Declines in gas drilling continue to lead the loss in activity. Although some customers are expressing interest in future activity, others are simply using the increased prices to repair their balance sheets before moving forward with any new drilling projects.

Agriculture. Agricultural conditions remain dry, particularly in the southern portion of the District. Some replanting has occurred in recent weeks because small grain crops were damaged by a lack of moisture, frost damage and bug infestation. Selling prices are at levels “far below” production costs for major crops, according to contacts, who say producers are dependent on government payments and the next farm bill. While there were reports of some improvement in the livestock market.

TWELFTH DISTRICT—SAN FRANCISCO

Reports from Twelfth District contacts indicated slow but steady improvement in economic activity in March and early April. With the exception of fuel prices, respondents reported stable prices for most consumer goods and services and little movement in wages. Consumers continued to respond to heavy discounting in the travel and tourism sector, which boosted economic conditions in travel dependent states. Conditions in manufacturing strengthened slightly in March, and contacts noted that inventories are now in balance given expected sales. District agricultural producers reported a slight improvement in conditions in recent weeks. Commercial real estate markets continued to weaken, while demand for residential real estate remained fairly strong. Bank contacts reported increasing strength in loan demand, primarily from the consumer side of the market.

Prices and wages

District contacts reported little change in consumer prices in March and early April, but noted an increase in the cost of producers' inputs, particularly fuel. Contacts noted that labor markets remained tilted in favor of employers, with ample labor supply and little upward pressure on wages and salaries. Even in sectors with tighter labor markets, respondents reported that wage increases were constrained due to rising health care and worker compensation costs.

Retail trade and services

District respondents reported stable conditions in retail trade and services, with demand approximately the same or slightly weaker than the fourth quarter of 2001. Contacts noted that retail inventories generally were in balance given current low levels of demand, which remained low relative to year-earlier levels. Respondents noted that the heavy use of discounting and

financing incentives in the retail sector in the fourth quarter generally has ceased and prices were flat during March and early April. Prices in communications services remained low; some respondents attributed this to over-capacity in broadband networks.

Demand in the travel and tourism sector continued to pick up across the District, boosting growth in states that are travel dependent, such as Nevada and Hawaii. Moreover, there continued to be heavy discounting in travel and tourism industries. Despite the recent pickup, hotel occupancy, air travel, and car rentals reportedly remain below last year's values.

Manufacturing

District contacts noted further signs of stabilization in the high-tech manufacturing sector in recent weeks, as a pickup in new orders and sales helped many factories draw down inventories, putting them in line with future expected sales. In fact, respondents reported that some manufacturers have begun to rebuild inventories cautiously. Improved demand and inventory balance boosted capacity utilization among makers of semiconductors. Utilization in the biotechnology sector, which, according to respondents, remained relatively high during the manufacturing slowdown, continued to be high. Prices in the high-tech sector were mixed; prices of lower-end products remained flat or declined slightly, while prices of newer and higher-end products experienced some gains, improving the profit outlooks for those producers.

While a number of respondents noted that the recently enacted economic stimulus package soon could bolster fixed investments, most expect the impact to be minimal until demand and companies' cash flow positions improve. District contacts continued to express concern that the strong dollar is damping export demand for manufactured goods.

Agriculture and Resource-related Industries

Respondents noted that demand for goods across the agricultural sector improved during March and early April. Contacts reported that inventories are generally in balance given current demand, though inventory levels were still below year-earlier levels. Contacts also noted that agricultural prices improved slightly in recent weeks.

Real Estate and Construction

Conditions in District real estate markets continued their trend in March and early April, with commercial markets growing weaker and residential markets gaining strength. Respondents throughout the District reported further increases in vacancy rates and declines in lease prices for commercial property. Contacts reported little, if any, new commercial development as builders halted construction awaiting improvement in demand for commercial space.

In contrast, demand for residential real estate in the District remained solid. Respondents reported that in the most recent survey period, home prices rose in some District states while remaining unchanged in others. Contacts noted that construction of entry-level and median-priced homes is on the rise, while construction of higher-end homes is flat.

Financial Institutions

District financial conditions reportedly changed little from the previous survey period. As in the previous period, strict borrowing requirements and the uncertain economic environment have reduced the incentives for business to seek loans. Demand for consumer loans has remained strong.