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Summary of Commentary on ______________________

Current Economic Conditions

by Federal Reserve District

June 2002

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS BY FEDERAL RESERVE DISTRICTS

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SUMMARY*

Reports from Federal Reserve Districts indicated that overall economic activity expanded at a moderate pace in late April and May. The tone was one of modest but uneven growth, with some major sectors showing signs of improvement while others softened or remained weak. Retail sales were flat in most Districts, and auto sales were mixed. Activity in the services and manufacturing sectors improved overall but varied across regions and segments. Residential real estate markets generally remained robust while weakness persisted in most commercial markets. Districts noted few changes in lending markets. Labor markets remained slack in most Districts, but several Districts reported higher demand for temporary workers. Price pressures were in check for most goods and services, but many Districts noted rising steel prices and continued increases in energy and insurance costs.

Consumer Spending: Most Districts reported that retail sales were similar to year-ago levels. Richmond, Atlanta, St. Louis, and Minneapolis reported that recent sales were flat on a year-over-year basis. According to New York, Chicago, and Dallas, sales were sluggish. Sales in the Boston, Philadelphia, Kansas City, and San Francisco Districts were improved, in contrast. Cleveland reported mixed results. Unseasonable weather reportedly hampered sales in the New York, Chicago, St. Louis, and Dallas Districts. Most Districts continued to report balanced inventories.

Reports on automobile sales in late April and May were uneven. Sales were robust in the Boston, Chicago, and San Francisco Districts. Reports from Cleveland, Richmond, St. Louis, Minneapolis, and Dallas were mixed. Philadelphia and Kansas City said that sales were down on

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* Prepared at the Federal Reserve Bank of Atlanta and based on information collected before June 3, 2002. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

a year-over-year basis, although Philadelphia noted that sales were at healthy levels. In the Atlanta and St. Louis Districts, some dealers complained about lost sales because potential buyers did not qualify for credit.

Services and Tourism: The services sector posted modest growth. Business was up for financial, legal, information technology, and trucking firms in the Philadelphia District. Cleveland reported a significant increase in demand for trucking and shipping services, and the demand for legal services was strong in the New York and Dallas Districts. New York, Richmond, and Atlanta said that computer-related service firms were experiencing weak demand; San Francisco noted heavy discounting of software and high-tech services. Boston, in contrast, reported some growth in demand for software products and services, particularly for health care-related software.

Reports on the tourism and hospitality industry generally continued to indicate an upward trend. Hotel occupancy picked up slightly in the San Francisco District and remained steady in the New York District. Richmond and Boston said that hotels reported steady demand and were hiring additional staff; sources in South Carolina said that business had "turned the corner" from September 11 effects. Atlanta and San Francisco reported strong forward bookings for summer tourist destinations, and Florida theme parks were adding to payrolls. Chicago noted that a major airline was experiencing strong leisure travel but weak business travel. In the Cleveland District, business conference attendance remained lower than last year.

Construction and Real Estate: Residential real estate activity remained robust in most Districts. Home sales improved in the New York, Atlanta, and St. Louis Districts compared with the previous year, and Richmond said that sales were up overall compared with the last Beige Book. Existing home sales picked up in the Chicago District, but new home sales were not as strong. San Francisco reported solid activity in most areas, while Kansas City noted strong sales of lower-priced homes and weak sales of high-end homes. Philadelphia reported high sales levels and accelerating prices. Richmond also noted rising home prices. Dallas, in contrast, said that builders reported a drop in sales and were offering concessions. Single-family construction varied across Districts, with activity up in the St. Louis, Minneapolis, and San Francisco Districts and remaining solid in most of the Kansas City District. Kansas City and Minneapolis noted slowing or weakness in the multifamily market, but the Manhattan multifamily market strengthened, according to New York.

Most Districts continued to report weak commercial real estate markets, with high vacancy rates and lower rental rates. Boston, Atlanta, St. Louis, Dallas, and San Francisco characterized commercial markets as weak. Commercial markets eased in the Philadelphia District and declined in the Cleveland, Kansas City, and Minneapolis Districts. New York reported that markets were stabilizing in the New York City area. Chicago reported mixed results. Richmond noted an increase in commercial activity, mainly in the office segment.

Manufacturing: Factory production, shipments, and orders were higher in most Districts, but the gains were uneven across industries. Automakers in the Cleveland District reported strong activity, and Chicago noted a surge in heavy truck orders as customers sought to make purchases ahead of EPA regulatory changes, scheduled to take effect October 1. Richmond indicated strong growth in shipments and orders for textile products, and St. Louis reported increased demand for a variety of non-durable goods. In the Philadelphia District, producers of construction materials continued to report robust demand. Dallas commented that refineries were operating near capacity for most of April and May. According to San Francisco, contacts indicated a pickup in new orders and sales in the semiconductor industry, which allowed producers to draw down inventories. More generally, inventories of finished goods were flat or lower in most Districts, although Kansas City noted that some plant managers were increasing inventories. Boston and San Francisco said that orders were down considerably for suppliers of aircraft components. According to Philadelphia, Atlanta, Dallas, and San Francisco, demand for telecommunications equipment remained weak.

Banking and Finance: Demand for bank loans was little changed, with conditions generally better on the consumer side than on the commercial side. Cleveland, Atlanta, and Dallas reported robust consumer lending. Cleveland, Richmond, Chicago, St. Louis, Kansas City, and Dallas said that business lending was soft or sluggish. Chicago said that firms were wary of borrowing to make large capital outlays. New York, in contrast, reported sagging loan demand on the consumer side but rising demand from commercial borrowers. Improvements in bank earnings, loan quality and demand were noted at San Francisco District banks. New York and St. Louis reported tighter or stable credit standards, while Philadelphia and Atlanta noted that some lenders have become more cautious in business lending. According to Cleveland and Atlanta, reports on loan delinquencies ranged from no change to a slight increase. Contacts in New York and Chicago reported that delinquency rates were lower or stable, while St. Louis noted a rise in defaults. Philadelphia reported that the outstanding loan volume has been moving up somewhat in recent weeks.

Labor Markets and Prices: Labor market conditions improved marginally but remained slack overall. As a consequence, reports cited little upward pressure on wages. Labor market conditions were little changed in the Cleveland, Chicago, Kansas City, and San Francisco Districts. Richmond and Dallas said that labor market conditions were mixed, whereas New York reported some improvement. Minneapolis noted that general labor market conditions eased slightly. Temporary employment agencies experienced increased demand in the Boston, Philadelphia, Richmond, and Atlanta Districts. Dallas noted that demand for temps rose in the manufacturing sector but declined in several service industries. Temporary worker demand was flat in the Cleveland District. Kansas City and Minneapolis noted an ongoing shortage of nurses, and skilled tradesmen were in short supply in the Kansas City District.

Price increases remained subdued overall, but the prices of a few goods and services rose substantially. Most Districts reported steel prices were sharply higher. Dallas said that the prospect of further steel price increases had spurred strong sales for fabricated metal products. Rising insurance costs were noted as concerns in the Boston, Atlanta, Chicago, Minneapolis, and San Francisco Districts. Boston, Richmond, and Dallas reported higher prices for energy and petrochemical products. New York and Dallas reported that manufacturers generally were not able to pass along higher input costs.

Agriculture and Natural Resources: Many Districts noted poor agricultural conditions. Richmond, Kansas City, Minneapolis, Dallas, and San Francisco reported that a drought was hurting crops and cattle in at least part of their Districts; some crops in the Richmond District were stunted by a late frost. Atlanta, Chicago, St. Louis, and Kansas City also noted problems resulting from unseasonable weather conditions. Minneapolis, Kansas City, and San Francisco reported concerns about low livestock prices, while cattle ranchers in Texas expect to face higher costs because all livestock leaving the state may have to be vaccinated against bovine tuberculosis.

Energy-related activities were up in the Minneapolis, Kansas City, and Dallas Districts. Kansas City attributed some of the rebound to anticipated increases in natural gas prices in coming months. Minneapolis noted expansions in the iron ore mining industry.

FIRST DISTRICT – BOSTON

Economic conditions are improving in the First District, according to most business contacts. Manufacturers report that their business is firming or improving compared with recent quarters. Most retailers say sales are picking up, software and IT firms indicate that demand is up either modestly or substantially, and staffing firms cite modest signs of recovery. The region's commercial real estate markets, by contrast, remain in the doldrums.

Retail

Most retailers in New England report improving sales in March, April, and May. Home furniture and automobiles are in high demand. A tourism agency has seen improvement, with a pickup in business-convention attendance and hotel occupancy. Sales results for discount retailers, however, are mixed, with one seeing an unexpected drop compared to a year ago, and another up 10 percent.

Some retailers report an increase in employment, while others are holding employment level. A tourism contact indicates that hotels are hiring back service workers who were let go in late 2001. An auto retailer has been hiring in all areas of business. Wage rates are mostly level among retailers, with one company budgeting a 3 percent increase for its fiscal year beginning June 1. Vendor prices are said to be fairly stable. Selling prices are holding steady, although hotel rates are down 15 percent compared to a year earlier. Most firms are increasing their emphasis on promotional sales, rebates, special pricing, and added value.

The contacted retailers are expecting their businesses to improve in the next six months. Most respondents feel positive about the future of the economy, with a few foreseeing no change. One contact says, "Despite the economy being a little wobbly, I think things will improve."

Manufacturing and Related Services

Most First District manufacturing contacts report that revenues in the first quarter and early second quarter were fairly close to year-ago levels. Companies with more positive results attribute them to acquisitions, expansions of their retail outlets, or development of new products. Manufacturers indicate that they and their business customers are no longer in an inventory-reduction mode, but nonetheless remain intent on controlling inventory and other costs. The prevailing opinion among manufacturers is that the economy will improve later this year, but only modestly.

Many contacts cite signs of slightly improving demand in the last month or two. For example, a paper products manufacturer indicates that business customers are replenishing their inventories. A manufacturer of corporate gift products is getting more requests for quotes, and a maker of business uniforms has seen a pickup. A furniture maker says store traffic appears to be increasing.

In contrast to the general tone, some lines of business remain stagnant or are slowing. An aircraft components manufacturer says business is down considerably from a year ago and below plan. Other firms supplying travel- and transportation-related nondurables or services say volumes remain below what they were prior to September 11. One equipment maker reports that financial services firms have cut their purchases, while another says biotech and pharmaceutical firms are increasing their purchases at a lower rate than forecasted.

Selling prices are mostly flat. Manufacturers cite higher costs for fuel and petroleum products such as plastics and resins. Although paper costs reportedly remain low, contacts make frequent mention of possible future increases for corrugated cardboard. Insurance costs continue to escalate.

Manufacturers remain intent on controlling employment costs and deferring unessential capital spending. Very few firms are adding employees, and almost one-half of the respondents are shutting facilities or installing labor-saving equipment. Pay raises range from zero to 3 percent. Budgets for information technology and air conditioning equipment are especially tight.

Temporary Employment

The temporary employment industry notes small signs of recovery during the second quarter of 2002. Almost all contacts report either narrowing revenue declines or positive revenue growth compared to a year ago, although profits are minimal. This industry started its downward slide during the second quarter of last year and bottomed out in the third quarter. Since then, many temporary employment agencies have consolidated or restructured.

Although many customer industries are still in the doldrums, staffing firms cite pockets of strength - call centers, telemarketing, and customer services - as businesses step up their marketing efforts. The financial services sector is said to be hiring on a moderate scale. Some contacts report stirrings in the light industrial sector, particularly in assembly and light manufacturing. The technology sector, including software, electronics, telecommunications, aerospace, and defense, is lackluster.

The supply of well-qualified workers is ample. As a result, many applicants display considerable flexibility in terms of wage demands and choice of work. The loose labor market has also caused some companies to bypass temporary employment agencies and hire directly. Those that do hire through temp firms are generally taking longer to hire and are more interested in short-term placements; they are not eager to add permanent workers. Although wage cuts are rare, wage increases are also minimal.

Temporary employment contacts expect the industry to grow during the third quarter, typically the busiest and most critical quarter of the year. Nevertheless, 2002 is not expected to be a banner year for most contacts.

Commercial Real Estate

Commercial real estate markets in New England remain weak. Although most contacts state that their local market is "not a disaster," they have little positive to say about recent developments, and some characterize conditions as "lethargic." Even in areas where activity levels are relatively high, most of the action has been due to existing companies' relocation or consolidation, not net absorption. The office market remains stable in Connecticut and Rhode Island, but has deteriorated noticeably in the greater Boston area, with vacancy rates high and rents falling. Rents remain steady in most other markets. Most contacts anticipate no significant improvement before the end of the year.

Software and Information Technology Services

All respondents report some growth in demand for their software products and services. About half of the respondents report very slow sales growth thus far in 2002 compared with a year earlier. These contacts say their clients remain slow to reinvest in technology. An equal number of respondents report very strong sales growth in the first five months of 2002. Multiple contacts in the healthcare software field report a 15 percent or higher increase in revenues or sales and a growing backlog of orders; other companies report sales that are ahead of their targets. One contact at a strongly performing company mentions some concern over their education-related software because of lingering questions about state and municipal government budgets.

Most contacts are uncertain about the future of the economy and also about their business for the rest of 2002. Contacts whose businesses have grown slowly so far expect growth to continue to be slow or possibly slow further, while those whose businesses are performing well consider the future to be somewhat uncertain. As a result, most software and IT respondents are holding headcounts level, although a couple are reshaping their job mix. Longer-term, many respondents are convinced that latent demand exists and will be activated either when the economy improves or clients decide they cannot postpone software or IT purchases any longer.

SECOND DISTRICT--NEW YORK

The District's economy has shown further signs of perking up since the last report, despite some softening in consumer spending and consumer borrowing. There has been no discernible pickup in price pressures. The labor market has shown signs of firming. Retail sales were generally below plan in May, partly due to unseasonably cool weather, with same-store sales little changed from a year earlier; still, inventory levels were reported as satisfactory, while selling prices were little changed. Surveys of regional manufacturing firms and purchasing managers suggest a slight deceleration in growth in May, but a pickup in cost pressures. Housing markets have strengthened further, especially in the New York City area. Office markets have stabilized, though rents are still down by well over 10 percent from a year ago. Finally, bankers report weaker demand for consumer loans, but stronger demand from commercial borrowers, along with declining delinquency rates for consumer and home mortgage loans and tighter lending standards.

Consumer Spending

Most retail chains report that sales were below plan in May; compared with a year earlier, same-store sales changes ranged from a 7 percent decline to a 4 percent increase. Unseasonably cool weather was blamed for some of this recent weakness. While various contacts noted sluggish sales of apparel, lawn and garden, and luggage, most indicate relatively strong sales of home appliances, furnishings and electronics. Despite the sluggish sales in recent weeks, most retailers report that inventories are in good shape. Retailers generally report that selling prices, merchandise costs, and wages are stable, but continue to note sharp escalation in medical and property insurance costs. One large chain reports that employee turnover has declined and that a growing proportion of workers are full-time; this has led to an increase in wage rates but also a large increase in worker productivity. Contacts express mixed levels of concern about the possibility of a West Coast longshoreman's strike this summer.

Construction and Real Estate

Housing markets have shown signs of gaining further momentum in recent weeks—particularly in the New York City area. Homebuilders in northern New Jersey report that demand remains strong and that supply shortages persist—although construction activity is lower than a year ago, price increases are sticking and buyers have been requesting more features and options. According to realtors in New York State and northern New Jersey, median selling prices of existing single-family homes are reported to be up 15-25 percent, year-to-date, from comparable 2001 levels in and around New York City, while gains in upstate New York have ranged from 1 to 9 percent. Unit sales are running 10-20 percent ahead of 2001 levels in metropolitan New York City and roughly 5 percent ahead in upstate New York.

Regarding the multi-family sector, a leading New York City appraisal firm and a major real estate firm both report further strengthening in Manhattan's co-op and condo market in April and May. A number of recent transactions have had multiple bids, though only modestly above the asking price, and prices are reported to be roughly back on par with a year ago and increasing. These contacts also report that Manhattan's rental market, though still somewhat slack, has shown clear signs of picking up since the last report. In contrast, eastern Long Island's summer rental market is said to be much weaker than last year.

Commercial real estate markets in the New York City area have shown more signs of stabilizing since the last report. In Manhattan, Midtown's vacancy rate edged up from 7.8 to 8.1 percent in April, but Downtown's rate held steady at 11.9 percent. Asking rents are reported to be down 10-15 percent from a year ago, and this is said to understate the decline in actual rents. Office rental markets in New York City's suburbs have been mixed, with vacancy rates declining in Westchester County, little changed in Long Island, but rising in central and northern New Jersey and Fairfield County, Connecticut. Separately, office vacancy rates in the suburbs of Albany rose to a nearly 10-year high in May, but vacancy rates in downtown Albany have declined over the past year.

Other Business Activity

A leading employment agency reports further improvement in the New York City's labor market in April and May. Hiring activity has remained strong in the legal services industry and has picked up in the financial services sector. However, there is still reported to be a large pool of unemployed information technology workers, with only sporadic hiring in that area. Separately, Manhattan hotels have seen stable tourism activity—both occupancy and room rates were little changed in April, at or close to pre-attack levels.

According to our May survey of New York State manufacturers, a smaller proportion of respondents reported improvement in business conditions than in April, but positive responses still outnumbered negatives. Moreover, expectations on the near-term outlook were overwhelmingly positive, even more so than in April. However, manufacturers increasingly indicate that input costs have risen, but that they have been unable to raise selling prices. Separately, a growing proportion of New York City area purchasing managers report favorable business conditions in May, though those in the manufacturing sector report some deceleration from the rapid pace seen in April. Meanwhile, Buffalo-area purchasers report some weakening in manufacturing-sector conditions and production activity, but a modest pickup in hiring. Purchasers in both Buffalo and New York City note some pickup in price pressures in May.

Financial Developments

Bankers at small to medium-sized Second District banks report sagging loan demand on the consumer side, but rising demand from commercial borrowers. Roughly twice as many respondents report increased demand for commercial and industrial loans and nonresidential mortgages as report decreases. For consumer loans, in contrast, responses were roughly the reverse. Demand for residential mortgages was little changed on balance, while refinancing activity continued to recede.

On the supply side, bankers report tightening credit standards for all types of loans except for residential mortgages, for which standards remained stable. Loan rates decreased for most types of loans, though rates on nonresidential mortgages held steady. Deposit rates also fell since the last report. Lenders report lower delinquency rates on consumer loans and residential mortgages, but little change in rates for non-residential mortgages and commercial and industrial loans.

THIRD DISTRICT – PHILADELPHIA

Business activity in the Third District rose in May. Manufacturers reported increases in shipments and orders. Retail sales of general merchandise increased slightly, and consumer spending on travel and entertainment moved up. Auto sales have been steady. Bank loan volumes moved up somewhat, mainly because of slight growth in business and real estate lending. Commercial real estate markets have eased in recent months, but demand for both new and existing homes remains strong. Among service industries in the region there have been recent modest pickups in activity at stock brokerages, law firms, computer services companies, and truckers, but business at telecommunications companies remains lackluster.

The outlook among Third District businesses contacted in May is for further improvement, although growth is expected to be modest. Manufacturers forecast increases in shipments and orders during the next six months. Retailers expect slight gains in sales over the summer, and auto dealers anticipate steady sales. Bankers generally expect slow growth in overall lending. Employment agencies expect strengthening demand for workers in the fall.

MANUFACTURING

Manufacturing activity in the Third District continued on a modestly upward trend in May. Although business is not moving up strongly among manufacturers in the region, orders and shipments have been rising at a fairly steady rate in most major manufacturing sectors. Companies that make products used in residential construction continue to report strong demand for both building materials and construction equipment. In contrast, firms supplying the telecommunications services industry report ongoing weakness. Area manufacturers continued to reduce inventories in May, on balance, 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 May, but the number reporting higher prices for both has increased compared with earlier this year.

The region's manufacturers forecast further improvement. Over half of the firms surveyed in May expect increases in orders and shipments during the next six months, while few anticipate decreases. An increase in demand will prompt some additional hiring and extension of working hours, but the increases will be modest, according to the manufacturers surveyed. Likewise, capital spending plans at area plants indicate that only slight increases are likely in the months ahead.

CONSUMER SPENDING

Third District retailers generally reported slight gains in sales in May compared with April. Sales were also up slightly compared with May of last year. Store executives said customer traffic has been good, but shoppers seem reluctant to increase their spending. In contrast, other areas of consumer spending appeared to be fairly robust. Contacts mentioned movie theaters, restaurants, and vacation travel as spending categories posting recent gains.

Auto dealers said sales in May were steady at a healthy pace, although down marginally from the rate set in May of last year. Sales of most makes of new cars have been relatively brisk, and sales of used cars have been strong as well.

Retailers expect sales to remain on a slight upward trend, with the usual seasonal slowing during late summer. Most of those surveyed for this report are optimistic that the fall will bring a boost to the sales rate. Auto dealers generally expect steady sales for the rest of the year.

FINANCE

Outstanding loan volume at Third District banks has been moving up slowly in recent weeks. Banks have increased business lending somewhat, but loan officers at some commercial banks said they have become more cautious in business lending in light of relatively weak growth in revenues among both current and prospective business borrowers. Consumer lending has been virtually flat at area banks, on the whole, although some banks have posted increased credit card lending recently. Real estate lending continued to move up, albeit slowly.

Bankers in the Third District expect overall lending to continue to grow slowly this year. They anticipate very modest growth in business and consumer lending, but they expect a slowdown in residential real estate lending.

REAL ESTATE AND CONSTRUCTION

Third District commercial real estate markets have eased since winter. According to recent surveys by commercial real estate firms in the region, the office vacancy rate in Philadelphia's central business district has increased about one-half percentage point since the start of the year, to around 14 percent, and rental rates have declined slightly. Vacancy rates have increased more in suburban office markets, to an average of around 16 percent, and rental rates have eased except in a few markets. Relatively large amounts of office space continue to be on the market for subleasing, and this is exerting downward pressure on rents in the region. Contacts in commercial real estate have moved out their forecast of an upturn in demand for space. Earlier forecasts called for firming in commercial markets to take hold around mid-year; now most forecasts do not envision improvement until the end of this year at the earliest.

Residential real estate agents generally reported a high rate of sales of both new and existing homes in April and May. Price appreciation has appeared to accelerate for existing homes, and builders have been raising prices for new homes. Builders and real estate agents expect demand for homes to remain strong as long as mortgage interest rates do not climb, but they expect the pace of sales to slow as fewer existing homes become available for sale and local government limitations on development impede new construction.

SERVICES

Temporary and permanent employment agencies in the region generally reported a modest increase in demand for workers in May. Companies that have been seeking to add staff include pharmaceuticals, stockbrokers, law firms, and hospitals. There appears to be a slight pickup in computer services, including Internet web site design, but business at telecommunications firms continues to be slow. Shipping activity has been on the rise, according to a major trucking firm serving the region.

FOURTH DISTRICT – CLEVELAND

With a few exceptions, economic conditions in the Fourth District during the last half of April and the month of May remained much the same as in the last report. Manufacturing, retail, and banking contacts continued to report mixed conditions, while improvements continued in the trucking and shipping industry.

Unlike the last report, however, commercial construction, an industry that fared surprisingly well during the recession, experienced worsening conditions. On the other hand, the situation in the automotive industry has improved substantially. Area automakers reported that production activity was strong, as did suppliers of raw materials and parts for the industry. Auto-related shipping has expanded as well.

Labor markets showed little change since the last report. Contacts in automobile manufacturing and trucking and shipping reported increases in hours worked, but for the most part, hours remained stable. Demand for temporary labor was flat. Job security continues to be the principal concern of organized labor. As was the case in the last report, very few contacts plan to hire new workers or recall temporarily laid-off workers.

Most prices in the District appear to be holding fairly steady, but health care, insurance, and steel prices were notable exceptions. While in previous reports it was mostly union contacts who mentioned rising health care costs, in this report contacts across industries, including retail, trucking and shipping, and manufacturing, did so. Both construction and trucking and shipping contacts noted large increases in insurance costs. Spot prices for steel were up an average 33 percent in April from the start of the year, but these increases have not completely taken effect in the market. The increases are estimated to affect between 20 and 50 percent of total steel sales.

Manufacturing

Typically, manufacturing conditions are similar throughout the District, but this year growth rates appear erratic between the northern and southern parts of the District. The northern region, which had reported deceleration in growth and only modest improvement in the last report, experienced strong growth during this survey period. Although the southern area reported strong growth in April, reports suggested a slight contraction in May. Conditions throughout the District have fluctuated monthly between contraction and expansion.

Automakers in the District reported significant amounts of overtime, with one plant reporting overtime during all seven weeks beginning April 15, two reporting six weeks with overtime activity, and another reporting five weeks with overtime. No plants reported closing during the last half of April or the month of May.

In the steel industry, reports ranged from "fairly strong" to "very slow" activity. In general, steelmakers that supply materials and parts to automakers reported strong conditions; those that supply construction companies reported stable conditions; and those that sell to others reported poor conditions (others include oil, tubular goods, commercial aerospace, and power generation companies). While steel producers still reported excess capacity in the industry, area contacts noted that capacity utilization has increased for most area plants.

Retail Sales

Area retailers continued to report mixed conditions. Adjusting for the seasonality associated with Easter, discount chains continued to report year-over-year sales increases, while declining sales persisted in specialty and department stores. Contacts offered mixed reports regarding apparel: some characterized sales as "very solid," while others noted year-over-year declines. Sales in furniture, appliances, electronics, and jewelry were strong. Most contacts reported lean inventory positions (one contact noted inventories were down 19 percent from the previous April) and as a result, some retailers reported running fewer promotions and making fewer markdowns on products than they did one year ago.

Several contacts who have stores located outside the District noted that sales in the Fourth District were generally weaker than sales for the country as a whole.

Area automobile dealers noted that while showroom traffic has slowed considerably from the start of the year, current customers are more likely to purchase a vehicle. On balance, the pace of auto sales in the District slowed in April compared with March, but registered above April 2001 levels. Dealers noted that a large part of the fluctuations in current year-over-year figures are due to high volatility in sales throughout 2001 -- monthly sales in 2002 have been much more steady.

Construction

District homebuilders reported that they remain guardedly optimistic amid fairly stable business conditions, with sales near their projections for 2002 (most plans projected slight increases in sales compared with 2001).

Commercial builders, on the other hand, noted a significant worsening in activity and outlook since the last report. Many projects that were in the planning stages remain delayed, and some clients have completely cancelled projects. Not only are commercial builders less busy than anticipated, their future prospects also appear to be poor. Contacts noted that work available for bid is attracting at least twice as many bids as usual, and companies are bidding for projects that they would normally not consider because they promise so little in revenue.

The Pittsburgh area is an exception for commercial builders, as activity remains robust there, but reports suggest that the construction boom in the area is nearing an end. Retail projects are becoming more infrequent as a glut of retail space has begun to develop in the area, and some concerns are emerging about the ability of the market to support more apartment space.

Trucking and Shipping

Trucking and shipping activity in the District increased significantly during the last two weeks of April and the month of May. Shipping of manufacturing goods, especially those that are auto-related, showed the strongest gains. Contacts believe that activity should continue to increase for the next several months, and they are much more confident about the recovery in their industry than they were at the start of the year.

Banking

Area bankers observed little change in banking conditions during the last half of April and the month of May. Competition for borrowers across all lines of lending continued to be very aggressive. Overall demand for consumer loans, especially home equity loans, remained strong, but demand for commercial loans has remained stagnant, with some contacts reporting no change and some reporting a decrease in demand. Most reported that the creditworthiness of applicants was stable over the survey period. Most banks reported no change or only a slight increase in the rate of loan delinquencies.

Travel and Tourism

While the number of conferences and conventions occurring in the District has been consistent compared with prior years, contacts in travel and tourism noted that the number of attendees has dropped. Overall, the demand for hotel rooms during first quarter 2002 was lower than fourth quarter 2001, and notably down from first quarter 2001 (hotel revenues in some areas dropped by more than 10 percent). Despite a weak first quarter, however, most area visitor bureaus and amusement parks are optimistic regarding leisure travel and tourism during the summer, based on a strong number of inquiries about travel to their areas.

FIFTH DISTRICT–RICHMOND

Overview: Economic activity in the Fifth District increased modestly in April and May, but the pace of expansion was uneven across sectors. Manufacturing activity grew briskly, with shipments and new orders posting sizeable gains. Outside of stronger automobile sales, however, retail sales were generally flat and District services firms reported that their revenues softened in May, after posting gains in April. The news was brighter in the real estate sector--home sales rose in most areas of the District and commercial leasing activity picked up. In the finance sector, overall loan volume was flat as solid growth in new home mortgages offset sluggishness in commercial lending. Activity remained mixed in District labor markets, with employment stabilizing in manufacturing for the first time in two years, but contracting at services firms. Prices rose at a modest rate in most sectors. In agriculture, a cold snap in late May caused frost damage in some areas, but crop development was generally ahead of schedule.

Retail: District retailers reported that sales generally remained at weak levels across the District in April and May. Retailers said that shopper traffic slowed somewhat over the last four to six weeks, and department store wholesalers said big-ticket sales edged lower. A department store manager in North Carolina and a discounter in West Virginia told us that their sales were flat. The one bright spot in the retail sector was automobile sales, which continued to be boosted by dealer financing incentives. Retailers indicated that little seasonal hiring was underway and most said they were not replacing employees lost through attrition. Overall retail prices rose at a moderate rate since our last report.

Services: Many District services firms said that demand softened somewhat over the last four to six weeks though demand for travel-related services strengthened. Computer-related services firms said their demand continued to weaken and hiring plans were scaled back. A network systems company near the Research Triangle in North Carolina, for example, saw flat revenues because of the "glut of available information technology talent created by downsizings" in that region. A financial services firm in Baltimore said their customers faced lingering uncertainty from last year's terrorist attacks and more recent corporate scandals. While hospital and healthcare firms in North Carolina reported steady business, they reported little hiring except for desperately needed nursing staff. But business picked up at some hospitality and travel firms. Hotels and conference centers reported steady demand, but unlike most firms, they were adding workers beyond those needed for normal seasonal requirements. In the South Carolina low country, a corporate travel agent said demand had rebounded to about 90 percent of what it was before September 11 and suggested that their firm had "turned the corner" since the terrorist attacks last September.

Manufacturing: District manufacturing activity expanded at a solid pace in both April and May. Contacts reported strong growth in shipments and new orders, especially in the textiles and chemical industries. A textiles producer in North Carolina said that business had improved noticeably in recent weeks as consumers bought more clothing and home furnishings. He believed that the industry was finally "coming off the bottom of the textile depression." District manufacturers told us that employment stabilized in April and May, after two years of general decline. Although there were reports of higher steel and polyethylene prices, overall prices in the manufacturing sector continued to advance only slightly.

Finance: District loan officers reported little change in lending activity in the weeks since our last report. Commercial lenders said that loan demand continued to be sluggish, as many potential borrowers remained cautious. A banker in Charleston, S.C., told us that while a few clients were beginning to move forward with capital expansion plans, most were taking a "wait and see" attitude. A Richmond lender said that he was seeing an increase in loan requests to expand working capital, but few requests for loans to finance major capital expenditures. Residential mortgage lenders reported that loan demand was little changed, as an increase in borrowing for home purchases was offset by dwindling mortgage refinancing activity. A banker in Greenville, S.C., said that layoffs in the area had cooled demand for housing but lenders in other areas reported that housing markets generally remained strong.

Real Estate: Residential real estate activity rose at a moderate pace since our last report. A realtor in Washington, D.C., reported strong house sales. He said homeowners continued to receive multiple offers, often substantially higher than the listing price. Home prices, he noted, are "bumped up" each time a property comes on the market. Likewise, a Maryland agent said sales were up dramatically and business was "booming." An Asheville, N.C., agent reported that sales were about 15 percent higher than a year ago. But home sales were less buoyant in other areas. A realtor in Rocky Mount, N.C., said prices were stable and the inventory of homes abundant, but a high unemployment rate had slowed housing there. In addition, a Richmond, Va., agent reported slower home sales, stating that everyone seems to be "staying put."

Commercial realtors noted a marked increase in leasing activity across the Fifth District in recent weeks. The bulk of activity was centered in the office sector, and the available supply of class A office space decreased across many District jurisdictions. The retail sector also experienced a healthy pick-up, but demand for industrial space rose only slightly. A contact in Charleston, W.V., noted that although a "discernable jump" in activity had occurred, a considerable amount of vacant commercial space remained on the market. Vacancy rates stabilized in the office sector, but continued to move higher in the retail and industrial markets. Likewise, rents firmed for office space, but edged lower for retail and industrial space. Construction in the commercial real estate sector was generally flat, although a smattering of "build to suit" projects were reported.

Tourism: Tourist activity strengthened in April and May, boosted in part by pleasant weather during the Memorial Day weekend. A contact on the Outer Banks of North Carolina told us that his hotel was completely booked over the holiday weekend while a hotel manager in Virginia Beach reported that business during the holiday was better than a year ago. In Washington, D.C., renewed patriotism invigorated tourist activity. During the Memorial Day weekend, thousands of motorcyclists roared through the city to honor soldiers of the Vietnam War. In addition, a respondent from Myrtle Beach, S.C., noted that a "biker weekend" in that city had also brought increased tourist activity to the area.

Temporary Employment: District employment agencies reported that demand for temporary workers picked up in recent weeks. A contact in Raleigh, N.C., said clients were starting new projects and initiating hiring that had been put on hold for a long time. An agent in Charlotte, N.C., reported stronger demand for workers and expected demand to continue to strengthen in coming weeks as Charlotte's economy picked up steam. Light industrial and administrative workers were the most highly sought. Wages for temporary workers remained generally steady across the District.

Agriculture: Cold weather in late May stunted crop development in some areas, but crops generally progressed on schedule in District states. Farmers in both Maryland and Virginia reported frost damage to corn; in some Virginia counties the damage was extensive, leading farmers in those areas to replant. Dry weather during much of May exacerbated drought conditions in North Carolina, but planting was generally ahead of schedule in the state; cotton and peanut planting was nearly complete. Corn and soybean planting was proceeding ahead of schedule in Maryland, South Carolina, and Virginia. Livestock was reported to be in good condition across the District and hay feed supplies were adequate, but a lack of rain limited pasture development in areas of North Carolina.

SIXTH DISTRICT – ATLANTA

Summary: Economic activity was sluggish in late May, according to reports from across the Sixth District. Merchants' sales did not meet expectations, but inventories were balanced. Auto sales were mixed despite generous incentives. Some softening was noted in District residential housing markets, but activity remained at healthy levels. Commercial markets continued to decline throughout the District. The factory sector was mixed, whereas the tourism and hospitality sector improved. Financial institutions noted continued strength in consumer lending. Labor markets were little changed, with few firms hiring on a permanent basis. Price increases were largely limited to health care, insurance, and some building and packaging products.

Consumer Spending: According to most District mall retail contacts, May sales were flat compared with a year ago. Although sales were mildly disappointing, most merchants said that inventories were balanced. Discounting has remained prevalent. Home-related product sales continued strong, while other product categories were mixed. Second- and third-quarter sales levels are expected to be flat compared with a year ago. District car dealers reported mixed sales performance. Generous market incentives, which some import manufacturers began to match, helped traffic and sales. However, some dealers complained that sales were lower than expected and that the recent promotions have attracted many potential buyers who did not meet credit requirements.

Real Estate and Construction: District single-family housing markets remained healthy in May. Most contacts said that home sales increased from a year ago, but construction and sales growth weakened somewhat from April to May in several areas. Florida markets continued their strong performance. Realtors described inventories of existing homes as high in Atlanta, Nashville, Knoxville, and Mobile, while inventories were low in Jacksonville, Miami, and Ft. Lauderdale. Most Realtors and builders said that new home inventories were balanced.

Sublease space continued to be a drag on commercial real estate markets throughout the District. Price concessions were present and construction continued to contract. Absorption remained weak; however, several reports indicated that some District markets have begun to stabilize.

Manufacturing: Reports from the manufacturing sector were mixed. The District's apparel industry continued to announce plant closings in May. A producer of industrial equipment reported slower activity, whereas a contact at a paper mill reported increased activity. Shipyards in Louisiana and Mississippi announced billion-dollar U.S. Navy contracts. Steel producers began replenishing inventories; however, some contacts were concerned that the tariff on foreign steel would reduce demand. Telecommunications spending was at a standstill. One source expects IT spending to accelerate in the second half of the year as firms replace equipment that has not been upgraded since Y2K initiatives. The auto industry is proceeding with investments to enhance inventory control and logistics.

Tourism and Business Travel: The District's hospitality and tourism sector continued to improve. Theme parks in central Florida were packed over spring break, and many embarked on recruitment programs to hire thousands of new employees. However, tourism officials noted concern about ongoing weakness in the number of overseas visitors. Airline passenger volumes continued to improve at Miami International Airport, and bookings for the Memorial Day weekend were strong in Miami Beach. However, room rates in Miami remain down from a year ago. Cruise lines continued to operate at full capacity with passenger counts above those of a year ago and strong forward bookings.

Financial: Consumer lending was strong across the District and problem assets remained under control, but some contacts noted increases in consumer and business loan delinquencies. Bankers were being very selective in approving new commercial lines of credit. Some contacts expected further losses in the venture capital industry, and there was virtually no merger activity in the small company arena. One report noted that a company that wanted to increase IT spending could not find financing because of conservative lending practices.

Prices and Labor: Most reports indicated that firms were not hiring permanent employees and were using temporary workers to meet any necessary increases in employment. As a result, growth in temporary services was strong throughout the District in May, albeit from relatively low levels. Some firms boosted overtime to avoid hiring new full-time employees. Health care workers remained in short supply.

Pricing pressures were largely benign except for increases in health care costs, insurance, and some building and packaging products. Concrete prices were up by double-digits since the beginning of the year, and paperboard prices have increased. Insurance rates continued to escalate.

Agriculture: Weather conditions were generally fair for major crops, but a few areas reported unfavorable soil conditions. Extreme temperature variations in Georgia contributed to the spread of a fungal disease that affects the state's sweet Vidalia onion crop. Losses for growers in southeastern Georgia could mount to $50 million for what was being called the worst crop ever. In Tennessee, recent abnormally cool weather and flooding hurt the cotton crop. Elsewhere in the region, cotton growers concerned about low prices planted smaller acreage.

SEVENTH DISTRICT—CHICAGO

Summary. Reports from Seventh District contacts suggested modest expansion in economic activity in April and May. Consumer spending generally remained sluggish, but there were reports of strengthening in a few segments. Construction and real estate reports were again mixed. Manufacturing activity continued to pick up, although the improvements were modest. Overall loan demand was mixed, with businesses remaining reluctant to borrow. Labor demand appeared to improve further in recent weeks. Generally, wage and price pressures remained subdued. Unseasonable weather seriously disrupted crop planting in some areas. Increases in District farmland values in the first quarter were the strongest in several years, but bankers reported that farm credit conditions deteriorated for the second consecutive quarter.

Consumer spending. Consumer spending generally remained sluggish in April and May, but there were reports of strengthening in a few segments. Retailers reported that sales results in the Midwest were generally flat, which was in line with or slightly below national averages. Pharmacy items, household goods, and toys were said to be selling well, while poor weather hampered sales of some seasonal items such as gardening supplies and sporting goods. Discount stores continued to outperform general merchandisers, and one contact noted that customers were only willing to buy aggressively discounted goods. Light vehicle sales in the District were generally slower than elsewhere in the nation, but remained fairly strong, according to one contact. Entertainment spending appeared to be improving in the District. Reports from casual dining contacts indicated that sales were generally better in April and May, and movie ticket sales were said to be "very strong." Reports from tourism- and travel-related industries were mixed. Some areas of destination noted an increase in tourism, while others reported a decrease; and a contact with one national airline said that leisure travel was strong, but business travel was very weak. There were a few reports of firming prices in entertainment industries, but overall price pressures at the retail level remained subdued.

Construction/real estate. Reports on construction and real estate activities were again mixed in April and May. Sales of existing homes picked up, according to many realtors, and home price appreciation remained strong. Sales of new homes were not as strong in most areas. But some builders in the Chicago area suggested that they may have underestimated the strength of demand for new homes, particularly in the suburbs, and offered too little product. On the commercial side, reports suggested that the rise in office vacancy rates continued to slow. However, most contacts were not expecting any measurable improvement in office markets until the end of this year. A contact in the Detroit area did note an increase in office leasing activity, adding that most deals were for small spaces of 10,000 square feet or less. The upward trend in light industrial vacancies was reportedly slowing in many areas, easing the downward pressure on rents. Despite higher vacancies, development of build-to-suit light industrial space remained fairly strong in some areas.

Manufacturing. Overall manufacturing activity generally improved modestly, but the gains were uneven across industry segments. Light vehicle sales nationwide continued to be strong through the end of May, and inventories remained lean. Some industry analysts suggested once again that incentive spending may ease in coming months, as automakers move to restore profitability. A contact with one large telecommunications equipment producer said that the industry had bottomed and was in the "recovery mode." Inventories were very lean, according to this source, and "the stage was being set for a good round of profits by the end of the year." New orders and shipments for materials such as steel and gypsum wallboard generally remained strong. New orders for heavy trucks continued at high levels as customers sought to buy ahead of EPA regulatory changes scheduled to take effect October 1. Demand for construction and agricultural equipment was said to be improving for some producers, although sales were still below year-ago levels. Recent increases in steel prices were said to be sticking, while announced price hikes for gypsum wallboard had to be delayed because of competitive pressures. The pricing environment for most other manufactured goods remained weak.

Banking/finance. Bankers generally indicated that overall loan demand was a little soft, but steady in April and May. Demand for residential mortgage loans was down from late last year, but remained more resilient than many bankers had expected. Some contacts reported a slight pickup in refinancing activity toward the end of May as interest rates decreased, and new originations were reportedly "holding up." Credit card volumes were said to be little changed in recent months, but remained below year-ago levels. Most contacts reported little change in consumer credit quality, although a few noted slight improvements in delinquency and bankruptcy rates. Business lending activity was generally described as sluggish. Most contacts reported that demand for business loans was soft, with volumes flat-to-down in April and May. One banker said that while current growth in volumes was "quite weak," the number of deals in the pipeline was picking up. Many bankers suggested that business customers remained wary of borrowing for large capital investments. The deterioration in business loan quality continued to abate, according to most contacts.

Labor markets. Labor markets were again relatively soft in the District, and little changed from our last report. Demand for workers continued to improve slightly "day by day and week by week," according to one contact. Broad based wage pressures remained subdued. However, rising costs of workers' compensation and health insurance remained a concern for most contacts.

Agriculture. District farmers have had a difficult spring planting season, leading one contact in central Illinois to observe "what we have is called a mess!" Unseasonably cold and wet weather in the eastern Corn Belt seriously disrupted the planting schedule. Normally, almost all of the corn and soybean crops would be planted by the Memorial Day weekend. But this year, in Indiana only about 40 percent of the corn and 20 percent of the soybeans were in the ground. Progress in Illinois was somewhat better, but still far short of normal. Contacts in central Illinois reported as much as 30 percent of the corn crop had to be replanted. Planting also was behind schedule in the northern Corn Belt, but not as seriously as in the south and east. In contrast, Iowa's farmers were progressing on schedule, as the wet spring was a welcome relief to the very dry soil conditions earlier in the year. Except in Iowa, crop emergence was also far behind normal. Contacts indicated that corn not in the ground by the end of the first week in June likely will not be planted. And unlike last year, unplanted corn acreage probably would not be shifted into soybeans; instead contacts observed that this year a larger proportion of farmers would elect to leave the land fallow and collect crop insurance. Farmland values in District states at the end of March were up 3 percent from the end of December and 6 percent above a year ago. All five states registered a quarter-to-quarter increase in farmland prices for the first time in two years. At the same time, agricultural credit conditions deteriorated in the first quarter as rural bankers reported lower rates of farm loan repayment, higher rates of loan renewals and extensions, and increased collateral requirements.

Eighth District - St. Louis

Summary

Economic activity in the District is continuing to pick up, although slowly. Retailers report that sales have been flat compared with their year-earlier levels, although many apparel and automobile retailers attribute this to cool, rainy weather and remain optimistic about the coming months. Cutbacks continue in some manufacturing industries, although reports of recovery are increasingly common. The residential real estate market continues to be strong throughout most of the District, although the market for high-end homes has been less strong. Commercial real estate markets continue to be weak throughout the District. Although credit standards remain largely unchanged, there are reports of increased credit standards for mortgages and commercial and industrial loans. In the agricultural sector, flooding and unfavorable weather have delayed planting and damaged crops in much of the District.

Consumer Spending

On average, contacts report that spending in April and May was flat compared with year-earlier levels. Over one-half of the retailers noted that sales met their expectations. Appliances, perishables, furnishings and other home products, and summer items were strong sellers, while apparel, jewelry, and gift items moved more slowly. Some contacts attributed the slow summer-apparel sales to cool, rainy weather. While inventories are lower than last year, contacts reported that they tended to be at their desired levels. Retailers remain optimistic about the summer, with over half of those surveyed expecting growth over last year and about one-third expecting sales to be about the same as their 2001 levels.

Car dealers in the District report that sales were up, on average, in April but tapered off in May. Reasons given for this decline include cool, rainy weather and low consumer confidence. About one-half of contacts said that strong manufacturer incentives have had the effect of "stealing" current sales by prompting customers to buy early. A majority of dealers are still offering these incentives, although less aggressively. Several contacts noted decreased interest in new and high-end vehicles and greater interest in cheaper, fuel-efficient vehicles. Overall, dealers reported desirable inventory levels for all vehicles. Just under 70 percent of dealers contacted are optimistic about summer sales, expecting to see growth over last year, while the rest expect sales to be around their 2001 levels. About one-third of the dealers noted higher rejection rates of finance applications, while the rest reported no change.

Manufacturing and Other Business Activity

The Eighth District manufacturing sector continues to recover, although slowly. While cutbacks, layoffs, and plant closings are still being reported in some industries, reports of recovery and growth are increasingly common. Industries that have seen an increase in business include apparel, furniture, medical supply, aluminum, food, home products, power, corrugated box, and tools manufacturers.

Reports from the services sector are mixed. While distribution and logistics companies are still recovering from a downturn last fall, some contacts noted that losses were not as large as expected and that some companies have seen strong employment and sales. Several medical centers in the District are expanding, although the shortage of healthcare workers continues to be a concern. Contacts also reported that advertising and gaming are strong and that the tourism industry is doing better than expected.

Real Estate and Construction

The District's residential real estate market continues to be strong. Housing sales in the Memphis and Little Rock portions of the District are ahead of their 2001 levels. Also, sales in southern Indiana were up between March and April, while sales in northern Mississippi continued to improve. In most areas, though, high-end homes are selling slowly or are selling at lower prices. Commercial real estate markets continue to be relatively weak. For example, the vacancy rate in the St. Louis industrial market was higher through the first part of the year, and reduced lease rates are being used to attract tenants. Residential construction opportunities are strong throughout the District, as April year-to-date building permit levels were generally higher than a year earlier. Commercial construction is more mixed, remaining slow in western Tennessee but picking up in central and western Kentucky.

Banking and Finance

A recent survey of senior loan officers at a sample of District banks indicates that the credit standards for commercial and industrial (C&I) loans have remained largely unchanged in the last three months. Some contacts, though, reported a slight tightening of standards for C&I loans, primarily due to deterioration in their bank's current or expected capital position. Also important were increased defaults by borrowers and decreased secondary market liquidity for loans. Most contacts reported a moderately weaker demand for C&I loans due to lower customer financing needs and cheaper nonbank sources of financing. They also reported largely unchanged credit standards for residential mortgages, consumer loans, and credit cards; although a few reported moderate tightening. Commercial paper back-up lines of credit have remained unchanged for nonfinancial firms. Contacts reported no unexpected change in their operations or activity since September 11. The only exception was a slight increase in the collateral requirement for commercial real estate borrowers.

Agriculture and Natural Resources

Unseasonably cool temperatures and substantial rainfall during May have slowed the pace of corn and soybean planting and have impeded crop emergence in Illinois, Indiana, Missouri, and parts of Kentucky. In many cases, planting took place under less-than-ideal conditions. Both corn and soybean plantings this year lag behind last year's pace throughout the District. Planting that should have been completed by mid- to late-May was reported as only one-half to two-thirds complete by the first of June, with contacts reporting widespread delays in southern Illinois and southern Indiana. In some areas, further delays may force farmers to plant soybeans instead of corn. Heavy rains have also caused substantial flooding and crop damage in some areas along the Missouri, Illinois, and Mississippi rivers. Contacts in Arkansas and Mississippi report that the rice and cotton crops are off to sluggish starts because of the cool, wet spring. In general, the rice crop is in good condition while the cotton crop is in fair condition. The winter wheat crop is generally in good condition as the summer harvest approaches.

NINTH DISTRICT--MINNEAPOLIS

Overall economic activity in the Ninth District is mixed. Agriculture and commercial construction are down slightly and consumer spending is level. Meanwhile, the residential construction, manufacturing, energy and mining sectors are up somewhat. Tourism businesses are optimistic for the summer season. From mid-April through May, labor markets loosened slightly, while overall wages and prices increased modestly. However, significant price increases in steel, insurance and college tuition were noted.

Construction and Real Estate

Commercial construction is down slightly from a year ago. Contracts awarded for heavy construction projects in Minnesota and the Dakotas decreased 1 percent during the three-month period ending in April compared with last year. Sales and rentals were down somewhat in April compared with last year at a Minneapolis area construction equipment dealer, primarily due to unfavorable weather conditions, according to the store manager. Commercial construction in April and early May appears to be a little slower than a year ago in the Billings, Mont., area, according to a building official.

District home building is somewhat higher than last year. District housing units authorized were up 15 percent for the three-month period ending in April compared with a year earlier. In Billings recent residential construction activity was fairly consistent with last year. In contrast, in Minneapolis-St. Paul vacancy rates for apartment buildings have doubled compared with a year earlier. Pending sales for new homes in Minneapolis-St. Paul decreased about 3 percent in April compared with last year.

Consumer Spending and Tourism

Consumer spending is about level with a year earlier. A major Minneapolis-based department store retailer reported that overall same-store sales in April were 0.4 percent higher compared with a year earlier. A Minnesota-based leather products retailer reported that same-store sales at its core chain stores were up 1.3 percent in April compared with a year ago. Sales were down about 4 percent at a Minneapolis area mall in April from last year, primarily due to soft sales in men's apparel. A Minnesota mall manager reported flat same-store sales in April compared with a year ago, while a North Dakota mall reported a 4 percent increase. April sales at a Montana mall were up 1 percent compared with a year ago, with flat sales in May, according to the mall manager. An auto dealer association representative reported solid auto sales in April in South Dakota, except at some dealerships in rural areas, where sales were slow.

Tourism businesses are optimistic for the summer season. Tourism activity in Montana for 2002 is expected to increase 2 percent over last year, according to a tourism official. A North Dakota tourism official noted that tourism businesses are optimistic for the summer season as many travelers are expected to remain closer to home. Visits at Mount Rushmore in South Dakota were up 27 percent in April compared with a year ago. However, crossings at the International Bridge in Sault Ste. Marie, Mich., decreased 14 percent in April compared with last year.

Manufacturing

Manufacturing activity edged up. A May survey of purchasing managers by Creighton University (Omaha, Neb.) indicated robust increases in manufacturing activity in South Dakota and slight increase in activity in North Dakota and Minnesota. In North Dakota, a data storage company recently added space to a production facility. A cabinetry plant in South Dakota plans to expand output. In Minnesota, a medical device manufacturer recently reported strong demand, while some metal fabricators reduced output due to foreign competition and shortages of steel. Due to favorable aluminum and electricity prices, an aluminum smelter in Montana recalled workers in May and opened up additional potlines. A plastic molding plant in the Upper Peninsula reported brisk May sales and production, especially for automotive components. A hardwood lumber mill in northern Wisconsin recently reported steady demand, while a drill factory in northern Wisconsin will close.

Mining and Energy

Activity in the energy and mining sectors is up slightly. Late-May district oil and natural gas exploration levels were up slightly compared with mid-April levels. Meanwhile, the iron ore industry is expanding, as a mine in the Upper Peninsula recently increased output and employment to full production.

Agriculture

The drought continues in Montana, and livestock prices dipped; however, the farm bill will aid the agricultural sector. The U.S. Department of Agriculture authorized the emergency grazing on Conservation Reserve Program acres in Montana in an effort to provide relief in areas hardest hit by drought conditions. Late-May livestock prices decreased about 5 percent from early April levels. The recently signed farm bill will subsidize producers in 2002 by an estimated $1.2 billion in Minnesota, $676 million in North Dakota and $606 million in South Dakota.

Employment, Wages and Prices

Labor markets loosened slightly during the past six weeks due to layoffs; however, some companies have announced expansions in payrolls. Recent plans to close four advanced circuit facilities in the Minneapolis-St. Paul area will result in 900 job losses. An electronics-design firm will lay off 100 people in Minneapolis. A major computer firm announced 150 layoffs in Rochester, Minn. About 25 percent fewer employers attended a recent job fair in Eau Claire, Wis., due to a decreased number of job openings in the area.

A total of about 3,500 roofers and pipefitters recently went on strike in Minneapolis-St. Paul. Employment agencies have reported that companies are frequently hiring temporary workers vs. filling permanent positions. According to a recent poll by a staffing company, 30 percent of respondents in Minneapolis-St. Paul plan to increase payrolls during the summer, while 11 percent expect to decrease staffing levels, compared with 34 percent and 9 percent of respondents, respectively, in last year's survey.

In addition, a major Minnesota-based airline plans to recall 135 full-time mechanics and 670 full- and part-time ground workers for temporary summer positions. A call center in Fargo, N.D., has recently added 80 jobs and plans to add 25 more by year-end.

Overall wage increases are moderate. Hourly wages for district manufacturing workers increased 3.2 percent for the three-month period ending in April. However, according to the results of a March *St. Cloud Area Quarterly Business Report* survey, 61 percent of respondents in central Minnesota expect employee compensation to increase by September, up from 55 percent in the previous year's survey. Several hospitals in the Minneapolis-St. Paul area have offered signing bonuses of up to $10,000 for top nurses.

Price increases are modest. Apartment rental rates have flattened, while significant increases were noted in steel, insurance and tuition. After apartment rental rates increased more than 10 percent at an annual rate about a year ago in the Minneapolis-St. Paul area, landlords say rents will increase by a small amount or remain flat over the next several months. The price of domestic steel has recently increased up to 30 percent. A South Dakota trucking company representative said that insurance costs for his firm have recently increased more than 50 percent. Tuition will increase about 10 percent at Minnesota state colleges and universities this fall.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy showed continued signs of improvement in May. Manufacturing activity increased and energy activity picked up considerably. Retail sales excluding autos remained solid, while residential real estate activitywas mixed. On the negative side, automobile sales fell and commercial real estate activityweakened further. In the farm economy, extreme weather caused crop damage and delayed planting. District labor markets remained slack, with wage pressures subdued. Retail prices and prices for construction materials held steady, while prices for some manufacturing materials continued to increase.

Consumer Spending. Retailers continued to report steady sales across much of the district in May, with activity remaining above year-ago levels at most stores. Sales for the month appeared to be better at luxury and discount retailers than at other stores. Sales of ready-to-wear apparel were solid, while furniture sales slowed somewhat following strong growth earlier in the year. Most retailers continue to expect activity to increase slightly in coming months. Some managers, however, reported they were reluctant to build inventories due to national security and economic concerns. The ski industry in Colorado ended its season in better shape than had been expected given the poor snow conditions that existed for most of the winter. Motor vehicle sales declined in most of the district in May, and were down significantly from year-ago levels. Sales of many domestic car models were reported to be especially weak, while sales of trucks and SUVs remained solid. Dealers were still cautiously optimistic that sales would increase in coming months.

Manufacturing. District factory activity increased in May, with most firms reporting higher levels of capacity utilization than earlier in the year. Production and shipments both moved higher and were near year-ago levels. Some plant managers also reported they were increasing inventories of finished goods in May after trimming them throughout much of the past year. The volume of new orders was slightly higher than a year ago, and managers remained generally optimistic about future factory activity. Expectations for capital expenditures have also risen slightly in recent months, but many firms remained hesitant to add new equipment and facilities. Few material availability problems were reported except for steel and steel products. However, the recent collapse of an interstate bridge in Oklahoma is expected to cause some delays of truck and barge shipments in the region.

Real Estate and Construction. Residential real estate activitywas mixed across the district in May, while commercial real estate markets weakened further. Single-family construction declined in Colorado but remained solid in most of the rest of the district. Builders expect these trends to continue in coming months. Multi-family construction has slowed in several parts of the district, and some builders expect foreclosures on existing multi-family properties to increase considerably in the near future. Home sales across the district increased slightly in May. Sales of lower-priced homes were very strong, with some places described as sellers' markets. The high-end market, however, was weak in many areas. Overall, realtors expect steady home sales in the near future. Mortgage lenders reported relatively flat demand for home loans, with activity split between home purchases and refinancings. Similar to realtors, mortgage lenders expect demand to remain unchanged through the summer. Commercial realtors reported further deterioration in district office markets in May. Office vacancy rates increased, and construction, sales, and prices of office space declined in most areas. Speculative building continued to decline across the district, especially in Denver. Most commercial realtors expect activity to remain flat over the next few months.

Banking. Bankers report that loans edged down and deposits held steady since the last survey, reducing loan-deposit ratios slightly. Demand fell for commercial and industrial loans and consumer loans but was little changed for other loan categories. Some bankers attributed the decline in business loan demand to uncertainty about the economic outlook. On the deposit side, slight increases in NOW accounts and money market deposit accounts were offset by a decline in small time deposits. Almost all respondent banks left their prime lending rates unchanged, and most banks also held their consumer lending rates steady. Lending standards were unchanged.

Energy. Energy activity in the district picked up considerably in May. After reaching a two-and-a-half year low in April, the count of active oil and gas drilling rigs in the region rose by nearly a quarter during May. Energy contacts attribute some of the rebound to an expected firming in natural gas prices in coming months. According to these sources, the sharp decrease in drilling activity over the last year will lead to a significant decline in natural gas production this year, eliminating the current storage overhang and supporting natural gas prices.

Agriculture. Extreme weather throughout the district led to poor crop-growing conditions in May. Due to persistent dry weather, poor winter wheat crops were reported in western portions of the district. Dry conditions have also limited pasture growth and some cattle ranchers will likely begin feeding other forages much earlier than normal. Conversely, the eastern part of the district has received ample, even excessive, rainfall that has delayed planting of corn and soybean crops in some areas. Low crop and livestock prices have required bankers and their farm borrowers to take a cautious approach to farm debt. District bankers indicate they have not denied credit to more farm borrowers than normal, although some bankers have increased their use of government loan guarantees.

Wages and Prices. Wage and price pressures were largely subdued in May, although increased steel prices continued to be a concern for many manufacturers. District labor markets remained slack, although there were more reports of difficulty finding workers than in the previous survey. The most acute shortages continued to be for skilled health care workers, especially nurses. Skilled tradesmen, such as masons, plumbers, and electricians were also in short supply in some areas, as were experienced salespersons. Outside of these occupations, firms reported few wage pressures or difficulties in hiring workers, and layoff announcements increased after subsiding in April. Retail prices were essentially flat in May and are expected to remain steady in coming months. Prices continued to rise for several manufacturing materials, particularly steel, and some manufacturers reported they have passed the cost increases through to customers. Most plant managers expect continued increases in materials prices. Prices for construction materials were generally unchanged and are expected to remain flat through the summer.

ELEVENTH DISTRICT—DALLAS

Eleventh District economic activity continued to show signs of slow improvement in late-April and May. However, contacts in several industries were disappointed that growth did not pick up as much as they had hoped. Energy activity was up sharply, and manufacturing activity increased. Demand for business services remained unchanged overall, but there were some mild signs of strengthening. Retail sales continued at roughly the same, lackluster pace as the last Beige Book. Construction and real estate activity was weak. The financial services industry reported little change in deposit or lending activity. Drought continued to plague the District's agricultural industry, but the Farm Bill should help the industry's cash flow.

Prices and Labor Markets. Stiff competition is preventing price increases in many industries, according to contacts, but there are some reports of higher prices, mostly related to energy products and insurance. Oil prices rose briefly to an 8-month high—over $29 per barrel for West Texas Intermediate—but have now fallen back to $26. Natural gas prices also increased—to $3.75 per million Btu—but fell slightly in the last week. In recent weeks, energy prices have been driven more by international supply factors than by changes in demand. Natural gas inventories are 23 percent higher than the 5-year average for this time of year. Despite increasing demand for natural gas, some analysts expressed difficulty in reconciling current high inventories and high prices. Chemical prices have risen, mostly because of higher natural gas feedstock prices. High levels of refinery output pushed wholesale gasoline prices down slightly, even as the price of crude was rising. With tariff protection, steel prices have increased, pushing up prices for fabricated metals. Soaring insurance premiums were reported as a serious concern for most industries.

Manufacturing. Manufacturing activity increased, but most manufacturers remain very cautious about the outlook. Food producers say sales are up seasonally, as expected, while demand for apparel products has increased. According to contacts, fears of further increases in steel prices have spurred strong sales of fabricated metal products. Demand for lumber, cement, clay, brick and glass were mostly unchanged, which was better than expected for some contacts. Demand for primary metals and paper products was unchanged and below the level of a year ago.

High-tech manufacturing continues to slowly improve, but respondents note that growth is very uneven. Sales of consumer items such as of DVD players, electronic games, appliances and wireless devices are improving, while business investment in technology equipment remains weak. Inventories are reported to be mostly in good shape. Respondents who produce mostly for the consumer market are optimistic that growth will continue to improve over the next six months but those who serve the business market are very uncertain about the short-term outlook. Contacts in the telecommunications industry report no improvement in demand and believe the recovery will take longer than expected.

Demand for petrochemicals has increased. While inventory restocking has helped drive petrochemical sales, there is growing evidence that a significant part of the demand surge is related to economic growth. Refineries have been operating at high levels of production for most of April and May, but have recently lowered the rate of production slightly because gasoline prices—and refining margins—have weakened.

Services. Demand for business services was unchanged overall, but there were some signs of mild strengthening and several firms said they were hiring. Temporary service firms reported steady demand over the last three months. Manufacturing, light industrial and call center activity has been solid, according to temp firms, but weakness remains in the telecommunications and financial sectors. Legal firms say litigation, corporate and bankruptcy work remained strong, but real estate and venture capital cases are weak. Demand for accounting services was flat, although firms in Houston and Dallas reported very strong demand from customers switching away from Arthur Anderson. Demand for transportation services remained stalled and very weak. The airline industry reports continued excess capacity, which is keeping price competition stiff.

Retail Sales. Retail sales continued at roughly the same pace as the last Beige Book. While retailers blame unseasonable weather for continued sluggish sales activity, most contacts believe consumer spending is not increasing. Retailers have generally become less optimistic about future sales growth since the last Beige Book. Inventory levels are in good shape, largely due to cautious purchasing over the past few months. Auto sales have been decelerating, with growth slower than a year ago.

Financial Services. Deposit and lending activity was mostly unchanged over the past few weeks. Deposit growth was resulting largely from loan repayments that contacts speculated were stimulated by debt consolidation or mortgage refinancing. Lending activity was flat. Consumer and mortgage lending continued to be the strongest categories. Business lending is unchanged to slightly slower than a few weeks ago. Larger banks continue to suffer from a lack of market-related activity, such as mergers and acquisitions.

Construction and Real Estate. Construction and real estate activity was weak. Dallas and Austin office markets are saturated, according to contacts. Rents are falling and numerous concessions are being offered. Home builders reported a decline in sales and slow traffic during what is typically a busy time of year. Builders are offering concessions to stimulate sales, including favorable financing, zero closing costs, prepaid expenses and free sprinkler systems. Sales remained strong for homes priced below $150,000, with few incentives. The market for multifamily dwellings in Dallas and Austin has weakened over the past few weeks, but the Houston market is holding up according to contacts.

Energy. Energy activity has increased sharply. The U.S. rig count picked up steadily for the past seven weeks stimulated by higher oil and natural gas prices and healthier balance sheets for producers. Land-based drilling for natural gas accounts for almost all of the gains in activity, but contacts say there are signs that activity in the Gulf of Mexico may soon begin to pick up. Oil service firms report growing back orders. Foreign activity has been down slightly, primarily due to cuts in Latin America, especially Venezuela.

Agriculture. Drought continues to plague District agriculture, and yield forecasts are being downgraded. Financial assistance from the recently passed Farm Bill will provide cash flow assistance for producers. Contacts expect Texas to lose its "bovine tuberculosis free" status, which would increase the cost of production because all livestock leaving the state would be required to have a tuberculosis vaccine.

TWELFTH DISTRICT–SAN FRANCISCO

Reports from Twelfth District contacts indicated that economic activity expanded at a moderate pace in most of the region in April and early May. With the exception of volatile energy prices, respondents reported little change in prices for most consumer goods and services. Moreover, slack labor market conditions worked to damp increases in wages. Consumers continued to spend at a steady pace, stimulated in part by discounting in the retail trade and service sectors. Conditions in District manufacturing generally improved further in the most recent survey period; contacts indicated improved conditions in high-tech manufacturing. However, most firms remained cautious about making technology investments. District agricultural producers noted some improvement in conditions in recent weeks. Commercial real estate markets continued to weaken, while demand for residential real estate remained fairly solid. Bank contacts reported acceptable levels of asset quality and some evidence of increased strength in loan demand.

Prices and wages

District contacts reported little change in consumer prices in April and early May, with strong competition keeping final sales prices low for retail products. On balance, producers' input prices held steady. Respondents observed that labor markets remained tilted in favor of employers; there is ample labor supply and little upward pressure on wages and salaries in most areas. On the other hand, rising health care and other insurance costs continued to concern employers.

Retail trade and services

Respondents reported continued strength in consumer spending and stable conditions in retail trade and services. Many District contacts noted that new automobile sales were holding up well during the most recent survey period. Respondents also indicated that inventory levels for both new and used cars were adequate. Demand for major home appliances generally remained steady in the District, with sales driven in part by strong home sales and low interest rates. Respondents indicated that heavy discounting by vendors continued to stimulate the sale of software and high-tech services. Discounting also was noted in the retail and service sectors more generally.

The District travel and tourism sector, outside of Hawaii, continued to see steady gains during the survey period. Hotel occupancy rates have picked up slightly, and respondents in California, Hawaii, and Utah reported that advanced bookings point to further improvement in travel and tourism this summer.

Manufacturing

District contacts indicated further signs of improvement in the high-tech manufacturing sector in recent weeks. In the semiconductor industry respondents noted a pickup in new orders and sales, which helped many factories draw down inventories, to keep them in balance with sales and allowed for further increases in production levels. In contrast, respondents reported that the telecommunications industry remained weak as over-capacity and price wars led firms to downsize and lay off workers. The recession-like conditions in commercial aircraft manufacturing continued as new orders and final sales remained weak owing to excess capacity in the airline industry. Contacts in the Northwest reported that weakness in manufacturing continued to hold down overall economic performance.

Most contacts noted little evidence in the current survey period of changes in the pace of investment spending, especially in high-tech products. Respondents stated that firms generally planned to remain cautious about investment and expansion plans in the months ahead until a sustained upturn in earnings is evident.

Agriculture and Resource-related Industries

Respondents indicated that conditions in the agricultural sector improved slightly during April and early May. Nevertheless, increased input costs, such as higher fuel costs, have imposed some strain on agricultural producers. Respondents reported that demand for domestic forest products improved, as housing activity remained brisk and sanctions on selected foreign products limited supplies. Contacts also noted low prices for a number of agricultural products, most notably cotton and cattle; high levels of supply continued to depress cattle prices in recent weeks. Contacts in Arizona and California expressed concerns about the effects of summer drought conditions on the farm sector.

Real Estate and Construction

Disparate conditions in District real estate markets persisted in April and early May, with commercial markets remaining weak and most residential markets continuing to be strong. Respondents throughout the District indicated that commercial property vacancy rates rose slightly, while lease prices deteriorated since the last survey period. In the San Francisco office market, lease rates have retreated to 1998 levels. However, the pace of the vacancy increases and rent declines have slowed compared to the last survey period. Contacts reported little, if any, new commercial development, particularly in resort hotels and downtown and suburban office space. Construction costs for commercial buildings in some District areas continued to decline.

In contrast, demand for residential real estate in the District remained solid in most areas during the survey period. Contacts observed that residential construction activity in several areas continued to rise at a moderate pace. Respondents in several District states also noted that home prices continued to appreciate in the most recent survey period; reports indicated that Southern California had the most robust housing markets in the District.

Financial Institutions

District financial conditions showed signs of improvement from the previous survey period. Contacts reported that bank earnings and asset quality remained solid, despite some concerns that consumers may be overextended. Bankers in California also noted an increase in demand for loans and observed that Southern California banks were benefiting from the region's relatively strong economy.