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Summary of Commentary on

Current Economic Conditions

by Federal Reserve District

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SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS BY FEDERAL RESERVE DISTRICT

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Summary*

Economic activity grew slowly, on balance, in late October and early November, according to information received by Federal Reserve District Banks. Business conditions were described as soft or sluggish in Boston, Atlanta, Chicago, Minneapolis, and Dallas. Cleveland and St. Louis reported mixed conditions. There was marginal improvement in Philadelphia, Kansas City, and New York. Richmond and San Francisco reported continued growth, but at a slower pace than in the previous survey period.

Consumer spending varied among Federal Reserve Districts. There was some improvement in general merchandise sales in New York, Philadelphia, Cleveland, Richmond, Kansas City, and Dallas. Sales were weak in Chicago, Minneapolis, St. Louis, and San Francisco. Auto sales have fallen in all Districts. Service industry activity was generally sluggish. Manufacturing remained soft in most Districts, but Philadelphia and Minneapolis noted some improvement. Business capital spending in all sectors continued to be limited. Commercial real estate markets continued to be slack in all the Districts reporting on this sector. Residential real estate remained strong, although New York, Chicago, and Dallas saw some signs of easing demand for housing. Agricultural conditions have been adversely affected by heavy rain and cold weather in southern parts of the nation but are good elsewhere. There has been little change in energy production but mining has declined. Bank lending remains strong for residential real estate, but other categories of lending have been lackluster.

Labor markets continued to be soft in nearly all Federal Reserve Districts, although demand for health-care workers remained strong. Wage and salary pressures were subdued, but employee health-care costs continued to rise sharply. Most Reserve Banks reported nearly steady prices at both the consumer and producer levels, with the exception of shipping charges, which have risen in the wake of the West Coast port disruptions.

* Prepared at the Federal Reserve Bank of Philadelphia based on information collected before November 18, 2002. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a representation of the views of Federal Reserve officials.

Consumer Spending

Retail sales of general merchandise varied among Federal Reserve Districts in October and early November. Gains were reported in New York, Philadelphia, Cleveland, Richmond, Kansas City, and Dallas. However, the increases were generally slight compared with late summer and early fall. Atlanta described retail sales as mixed and about even with a year ago. Chicago and Minneapolis reported weak retail sales, and St. Louis and San Francisco indicated that retail sales had declined from September to early November. The onset of colder weather in most parts of the country boosted sales of outerwear. Sales also increased for food and grocery items and small home furnishings, but several Districts noted flat or declining sales of big-ticket and luxury items. Discount stores posted better sales growth than other types of stores in most Districts, and in New York and Philadelphia retailers reported that consumers were shifting purchases to discount brands.

All the Districts reporting on auto sales noted declines in October compared with the same month last year and compared with the sales rate set during most of the year until October. The slower sales rate continued in November, and some further declines were noted in the Kansas City and San Francisco Districts. Dealer inventories have increased. In the Philadelphia and St. Louis Districts, dealers said inventories were too high, but dealers in the Chicago and San Francisco Districts said inventories were not excessive despite the increase.

Tourism activity has been mixed. Boston, Richmond, Minneapolis, and Kansas City reported that recent tourist travel, lodging, and spending had increased from last year in most parts of their Districts. Chicago indicated flat tourism. In the Atlanta, Dallas, and San Francisco Districts, travel and tourism have been weaker this year than last, although Atlanta noted that advance bookings for winter cruises were strong.

Services

Service industry activity remained weak. In Boston, demand for information technology services has declined. Service companies in the Richmond District have had sluggish revenue growth. Service-sector activity was slow in the Dallas District, and demand for most business services was said to be soft in the San Francisco District.

Trucking firms in the St. Louis District still have large backlogs resulting from the West Coast port disruptions. Delays in receiving shipments were reported from Boston and Philadelphia, although deliveries in those Districts appeared to be getting back to normal. Atlanta-area retailers remain concerned about getting all their holiday merchandise delivered before Christmas. Also in the Atlanta District, Asian motor vehicles and parts have been in short supply because of the West Coast shipping interruption and slowdown. Dallas reported that transportation activity in the District was at low levels. In Cleveland and Kansas City, there were few reports of difficulties obtaining shipments.

Manufacturing

Most Districts reported continuing weak conditions in the manufacturing sector in October and early November. Demand for manufactured goods remained soft in the Boston, Richmond, Atlanta, Chicago, and Dallas Districts. Conditions were mixed in the Cleveland, St. Louis, and San Francisco Districts, although San Francisco noted an increase in cancellations of orders at manufacturers in the District. Kansas City reported an apparent stabilization in the District's manufacturing sector in late October and early November after a decline earlier in the fall. Manufacturers in the New York, Philadelphia, and Minneapolis Districts reported some improvement, on balance.

Conditions varied among specific goods-producing sectors. Boston and Chicago indicated that capital goods industries had flat or falling sales. Producers of industrial equipment were seeing improved demand in the Philadelphia and Richmond Districts. Philadelphia and Dallas noted declining orders for construction materials. Orders at defense plants have increased according to Boston and Atlanta. New York noted a fairly broad rebound in the manufacturing sector. In general, manufacturers have been producing below capacity, and they have been implementing cost-reduction measures to maintain profitability.

Among the Districts reporting on manufacturing inventories, there was no clear pattern. Manufacturers in the Philadelphia and Cleveland Districts have reduced inventories recently. Inventories remained low among manufacturers in the San

Francisco District. Chicago District manufacturers had recent increases in inventories but generally described inventory levels as "fair."

Capital Spending

Business capital spending continues to be limited, according to most of the Reserve Banks reporting on this activity. In the Boston District, retailers generally plan little if any increases for 2003, manufacturers' plans are mixed, and information technology and software companies will keep their capital budgets flat. In the Richmond District, retailers' plans are mixed, although most are planning upgrades to information systems next year. Manufacturers in the Philadelphia District plan to increase capital spending in the next six months, on balance, and there are some reports of higher capital spending among manufacturers in the St. Louis District. But manufacturers intend little change in capital spending in the Kansas City District in the next six months, and they are delaying or canceling spending in the Atlanta District.

Real Estate and Construction

Commercial real estate markets remained weak in all 12 Federal Reserve Districts. Rising vacancies, increased subleasing, and declining rents have been evident in nearly all office markets. Commercial construction has also slackened. San Francisco reported that commercial development has all but stopped. Commercial construction has picked up in a few parts of the Richmond and St. Louis Districts, even though those Districts also reported general softness in nonresidential construction.

Residential real estate markets continued to be strong in the majority of Districts. There has been little change in the pace of home sales in Philadelphia, Richmond, Atlanta, St. Louis, and Kansas City. In the Cleveland District home builders have been exceeding planned construction rates, and home building in the Minneapolis District is ahead of last year's pace. Residential real estate markets remained "solid" in San Francisco, but growth of new home construction has slowed. Both San Francisco and Atlanta reported some weakening in demand for homes in the higher price ranges. Three Districts indicated that residential markets were softening: New York, Chicago, and

Dallas. In the Chicago and Dallas Districts cancellations of house-construction contracts have increased.

Agriculture

Recent rains in many parts of the nation have ameliorated drought conditions, but heavy rains in the South have damaged some crops and delayed field operations. This year's grain crops, especially corn and soybeans, in the Cleveland, Chicago, and St. Louis Districts are expected to be below those of recent years. The cotton crop in the St. Louis District and the sugar cane crop in the Atlanta District were also significantly damaged by rainstorms. In contrast, farmers in the Minneapolis District expect large increases in corn, soybean, and wheat production, and Dallas expects good cotton and winter wheat crops.

Natural Resource Industries

Federal Reserve Districts reporting on the energy sector noted little change in activity in October and November. In the Minneapolis District, oil and gas production rose slightly, but exploration efforts have been flat. The oil and gas rig count edged up in the Kansas City District but was steady in the Dallas District. According to contacts in the Kansas City District natural gas inventories were high, but unusually strong winter demand could outstrip production capacity. Minneapolis reported that non-energy mining activity in the District had moved down somewhat.

Financial Services and Credit

Residential loan demand continued to be strong in most Districts for both refinancings and purchase mortgages. New York, Philadelphia, Cleveland, Richmond, Chicago, Kansas City, and Dallas noted continuing strength or further growth in mortgage activity. However, Atlanta and San Francisco reported recent slowing in mortgage activity. Commercial and industrial loan demand remained soft in New York, Philadelphia, Richmond, Chicago, and St. Louis. Such loan demand was said to be flat in Cleveland and edging up in Kansas City. Bankers in the Philadelphia, Chicago, and St. Louis Districts said business loan demand was low because businesses have less interest in or need for funds, since their inventories, accounts receivable, and investment spending have declined. Reports of weakening consumer loan demand, other than real estate related, came from New York, Philadelphia, and Dallas. Consumer loan demand has strengthened somewhat in Cleveland, Chicago, and Kansas City, although growth rates were not robust.

Cleveland, Dallas, and San Francisco reported that deposits have been growing at banks and other depository institutions in their Districts, but Kansas City indicated that deposits in that District have been flat. Philadelphia noted that sales of annuities have been growing in that District as investors look to increase their returns but are reluctant to make further commitments in the stock market.

Employment and Wages

Nearly all Reserve Banks reported continued softness in labor markets, although New York indicated there were scattered signs of a pickup in demand. Kansas City reported a continuing high rate of lay-off announcements. Hiring at temporary employment agencies was picking up, although slowly, in Boston, but growth in temporary help employment had stalled in Chicago and was described as "lukewarm" in Richmond. An exception to the generally flat demand for workers in most Districts is the health-care sector, where the supply of available workers remains below employers' needs. Retailers will hire close to the normal number of seasonal employees, according to Philadelphia and Richmond, but stores in Atlanta are being cautious in adding workers for the holidays.

Wage and salary pressures remain subdued. Kansas City indicated that wage pressures were virtually nonexistent. Dallas noted that temporary help wages have been flat or declining. San Francisco reported that many firms in that District were canceling usual year-end bonuses. Although wage and salary trends have been weak, increases in employee health-care costs have been large and widespread.

Prices

Most Reserve Banks reported generally steady retail prices in November. Boston indicated that retail prices for goods have been flat and that hotels, restaurants, and tour companies have introduced low-priced package deals. New York noted a decline in selling prices for most consumer goods. Chicago and San Francisco said retail prices have shown little change.

In the industrial sector prices have changed little. Manufacturers' selling prices have been flat to down, and prices for software and information technology services have been practically unchanged in Boston. Manufacturers' selling prices have declined in New York, although input costs have risen. Manufacturers' input costs and output prices have been mainly unchanged in Philadelphia. Manufacturers in the Chicago District said they have little pricing power.

Minneapolis reported modest price increases generally, and Dallas noted more price reductions than increases. San Francisco noted that truckers, marine shipping companies, and air freight companies have imposed extra charges related to shipping delays occasioned by the West Coast port problems.

FIRST DISTRICT – BOSTON

The economy remains slow in the First District. Some retailers are slightly more upbeat than in the last report. Manufacturers indicate that conditions remain difficult and some report slowing activity in recent weeks. The office real estate market is weak in the Boston area and sluggish elsewhere in New England. Staffing firms report small improvements from a year ago, but most software and IT companies say demand is down. Contacts are generally hopeful about 2003.

Retail

Most retail contacts report sluggish sales in September, October, and early November, although they are ahead of last year's post-September 11 depressed levels. Sales of art/office supplies and small-ticket home items remain even, while home furnishing sales increased slightly in October. Contacts from the hospitality and tourism sector gave the most upbeat report, with autumn usually New England's busiest season. Tourism-related sales are reportedly strongest in New Hampshire and Connecticut, and convention figures are higher than expected throughout New England. However, overnight business travel and hotel occupancy continue to fall short of expectations, especially in the Boston area where hotel occupancy is up only 3 percent from a year ago. Many contacts report that aggressive promotions and marketing have helped keep sales from declining.

Headcounts are steady, as most retailers are filling only essential positions. Contacts report stable vendor prices. Selling prices are level, with the exception of the tourism sector where hotels, restaurants, and tour companies continue to offer low-priced "package deals." Most retailers claim gross margins are slightly higher than last year. Almost all contacts report little, if any, increase in their 2003 capital spending plans. Some retailers are expecting sales to pick up modestly in the next six months, while others expect flat sales until the third quarter of 2003.

Manufacturing and Related Services

Most First District manufacturing contacts report that business conditions continued to be tough throughout the third quarter and into the fourth quarter. Apart from growth in defense, makers of capital goods and other business products indicate that business remains soft; their sales are generally flat to down. Most makers of consumer products say they are doing "okay" in a challenging market, with sales up at a single-digit rate from a year ago.

Several firms mention recent dips in revenues. For example, a textile manufacturer says that orders began to fall off in November. A furniture maker indicates that the West Coast port lockout caused a delay in filling orders, while a food manufacturer says the work stoppage resulted in a loss of business to foreign competitors. A paper company reports that e-billing is causing demand to slip again, after a brief improvement in late summer. A biotech firm notes lower-than-anticipated growth because of delayed approval of products by the Food and Drug Administration.

Selling prices are mostly flat to down. Respondents comment that their customers in troubled industries such as airlines and financial services are pressuring them for concessions. Materials costs are largely flat, except for situations in which manufacturers have coaxed reductions from their suppliers.

Most manufacturing contacts say they are reducing employment or holding it steady. No companies report upward pressures on pay. Capital spending plans are mixed. Some respondents are undertaking large initiatives in 2003 involving modernization of their plant or information systems. They say these investments will lead to reductions in labor requirements or increase throughput. Other companies are reducing or holding the line on capital spending.

Manufacturers generally express a hopeful attitude. Several respondents indicate that once the economy improves, so will their business. In the case of business tied to the semiconductor industry, this upturn is said to be unlikely to occur before late 2003. Other firms say they have taken actions to put themselves in a more advantageous competitive position.

Temporary Employment

Most temporary employment firms report slow growth in the fourth quarter to date. However, several contacts cite improvement, ranging from "a slight pick up in business" to "performing well." Most placements are for temporary or contract staff. Revenue is down from last year. Continuing price pressure from the client side and escalating costs are squeezing margins. Contacts have initiated stringent cost controls to eke out some profit.

Demand for temps is reportedly expanding in microelectronics, light industrial, construction, mortgage, non-profits, health care, telemarketing, and customer service. Information technology hiring remains negligible while the academic market is losing momentum. Supply continues to exceed demand, even at high caliber levels. Despite what one contact describes as "one of the longest droughts" in the history of the staffing industry and a widespread feeling of uncertainty, respondents are optimistic that brighter days lie ahead. Improvement is foreseen at the end of first quarter of 2003.

Commercial Real Estate

Commercial real estate markets in New England have not improved over the past quarter. The Boston office market remains weak, with low activity levels, rising vacancy rates, and declining rental rates. Vacancy rates are around 14 percent in downtown Boston and they exceed 20 percent in the suburbs. Those numbers understate the amount of available space, however, as the sublease market continues to be very active and long-term contracts force some tenants to pay for space they cannot utilize. As a result, rental rates have declined by 20 to 30 percent over the past year and many tenants are trying to renegotiate existing contracts.

In the rest of New England, office markets are similarly flat and activity levels are low. Contacts report that industrial and retail space is doing better than the office market. Because they see no signs of improvement, contacts anticipate that the markets will remain weak for the next two to three years.

Software and Information Technology Services

According to a majority of respondents, demand for software and information technology services has worsened or at best not improved over the past quarter. Custom applications and payment systems software developers report a slowdown in sales and either negative or "lackluster" performance after a strong summer, and producers of human resource software and software development tools report generally sluggish demand. While health care software providers continue to experience robust sales, they point out that their performance does not usually follow the business cycle, in part reflecting new legal standards on hospital information security. Product prices for all companies have remained flat, as firms have been unable to pass rising accounting and insurance costs on to consumers.

Employment is largely flat, as respondents have either reduced their hiring targets to zero or continued with employment freezes. The exception is medical software producers, who report variable growth in employment. Capital and technology budgets remain largely flat as some companies spend only out of necessity while others take advantage of lower costs to purchase better IT equipment.

The outlook remains guardedly optimistic with an expectation for slow but positive growth in the next year in the absence of geopolitical risks. One respondent is expecting to break even in the first quarter of 2003 and two others expect slight or lackluster growth.

SECOND DISTRICT--NEW YORK

The Second District's economy has shown signs of strengthening since the last report, with improvements in labor markets, retail sales, and manufacturing, but the overall pace of activity still looks soft. Real estate markets continue to cool off, and there is some downward pressure on goods and service prices.

Retail sales have picked up since the last report, but they were still below plan in most cases; selling prices are described as steady to lower and retail inventories are said to be at or near desired levels. Manufacturers and purchasing managers indicate a rebound in business conditions in October and early November; they report stable input prices but some downward pressure on selling prices. Housing markets showed further signs of slowing since the last report—mainly at the high end—though prices remain well ahead of a year ago. New York City's office market also continued to slacken in October. Finally, bankers report increased demand for residential and commercial mortgages, tighter lending standards, and an upturn in delinquency rates on consumer and home mortgage loans.

Consumer Spending

Retailers report that sales in the district were mostly below plan in late October and early November, but stronger than in the last report. Same-store sales were little changed from a year earlier, on balance. Most of the recent improvement was attributed to apparel sales, which have reportedly picked up in recent weeks, largely due to colder weather. In general, apparel sales are still said to be weak. Sales of home furnishings are described as mixed, but one contact notes a drop-off in sales of home nondurables. One large chain notes that consumers have been spending less on food, increasingly opting for discount brands over premium brands. Inventories were reported to be down noticeably from a year earlier, though a few contacts report they are a bit high. Retailers generally report less discounting in recent weeks, as cold weather has helped clear an overhang of outerwear. Still, most contacts say that selling prices have declined, on balance.

Regional surveys of consumers indicate steep declines in confidence in October. The Conference Board reports that confidence in the Middle Atlantic region tumbled 21 points in October, to a 7-year low, reflecting steep drops in both appraisal of current conditions and expectations. Similarly, a survey of New York State residents, conducted by Siena College, indicates that confidence fell sharply in October, reaching its lowest level in the survey's nearly four-year history. The steepest decline was in metropolitan New York City, where confidence fell below its September 2001 trough.

Construction and Real Estate

Residential real estate markets have shown signs of softening since the last report. In the third quarter, single-family home sales in New York State declined substantially more than the seasonal norm, though the average sales price was little changed, and still sharply higher than a year earlier. New York City's co-op and condo market has also shown signs of slowing thus far in the fourth quarter, with sales volume reportedly down and apartments taking longer to sell. A leading Manhattan appraisal firm indicates that prices for studios and one-bedroom units have held steady in recent months but that prices of larger apartments have slipped—still, prices in both these categories remain ahead of a year ago. More generally, real estate contacts in downstate New York and northern New Jersey note a marked increase in the number of houses and apartments on the market, particularly at the high end.

Multi-family permits in New York and New Jersey climbed to near a 15-year high in the third quarter, despite a slight decline in September. More apartments have been authorized in the past 12 months than in any full year since 1987. Single-family permits, which slipped in August, rebounded in September; overall, third-quarter levels were still high, but off the peak levels of the first half of the year.

Manhattan's commercial real estate market slackened further in October: availability rates edged up in both Midtown and Downtown, and asking rents remained sharply below comparable 2001 levels. One contact notes that a good deal of new sublease space has come on the market in recent weeks, and that most of the leasing activity is from firms relocating within the city.

Other Business Activity

There are scattered signs of a pickup in the labor market, for the first time in a number of months. Private-sector employment rose noticeably in both New York and New Jersey in October. A leading New York City employment agency, specializing in mid-level office jobs, notes some pickup in hiring activity in recent weeks; still, this contact describes labor demand as weak, particularly in the market for temps.

Surveys of manufacturers and purchasing managers point to a fairly broad rebound in the region's manufacturing sector in October and early November. Buffalo-area purchasers report further improvement in business conditions in October, led by widespread increases in new orders; they also note declines in inventories, moderate growth in production activity, and little change in input price pressures. Rochester-area purchasers also report improvement in business conditions, though little change was reported in new orders; the latest survey also shows later deliveries but some diminution in upward price pressures. Purchasing managers in the New York

City area report steady conditions in both the manufacturing and non-manufacturing sectors in October, and no changes in input prices.

Separately, our early-November survey of New York State manufacturers indicates a brisk rebound in business activity, following a dive in October. Both shipments and new orders strengthened, while inventories declined, and respondents remained overwhelmingly optimistic about the near-term outlook. Manufacturers also report some increase in input prices, but declines in selling prices.

Financial Developments

Small to medium-sized Second District banks report continued growth in demand for residential and nonresidential mortgages, but some seasonal weakening in demand for consumer as well as commercial and industrial loans. Refinancing activity continued to increase, with nearly 60 percent of bankers indicating increased activity compared to only 3 percent reporting decreases.

On the supply side, credit standards continued to tighten, on balance, for all loan categories—four in five bankers report no change, but none reports an easing of standards. Both loan rates and deposit rates continued to decline across the board. Lenders report an upturn in delinquency rates on consumer loans and residential mortgages but stable rates for nonresidential mortgages and commercial and industrial loans.

THIRD DISTRICT – PHILADELPHIA

Business activity in the Third District appeared to be advancing marginally in November. Manufacturers reported modest increases in orders compared with October. Retail sales of general merchandise have picked up from last month and from last year, but auto sales fell in October and remained steady at the slower rate in early November. Residential building and home sales remain strong, as does mortgage lending, but bank lending other than mortgages has eased, and commercial real estate markets remain soft.

The outlook in the Third District business community is positive, although there is a general feeling that economic growth is fragile and likely to remain so, especially as long as the international situation is uncertain. With respect to their own industries, business contacts generally expect moderate improvement. Manufacturers forecast increases in shipments and orders during the next six months, and they have scheduled increases in capital spending. Retailers expect slight year-over-year gains in sales for the holiday shopping period. Auto dealers expect sales to be steady near the current rate through the rest of the year. Residential builders forecast a continuing high rate of sales and construction activity. Bankers generally expect overall loan demand to remain flat, and commercial real estate agents see no signs of imminent improvement in commercial and industrial real estate markets.

MANUFACTURING

Third District manufacturers reported a steady rate of shipments and a modest increase in orders, on balance, in early November. However, conditions were mixed among the region's major manufacturing sectors. Companies that produce industrial equipment and machinery have seen increases in demand, and there have been gains among food processing companies and makers of petroleum products. Firms that manufacture building materials and components have seen some easing in demand compared with prior months, although actual levels of production remain fairly high. Producers of electrical equipment and basic metals continue to report weak demand for their products. Area manufacturers generally indicated that their inventories declined marginally in November compared with October. Most of the manufacturers contacted in

November indicated that prices for both the inputs they use and the goods they manufacture were steady during the month, and many said that price competition in their industries remains strong.

The region's manufacturers forecast improving business conditions over the next six months. Just over half of the firms surveyed in November expect increases in orders and shipments during the next six months, while only one in 10 anticipate decreases in orders and even fewer expect shipments to decline. Area manufacturers' capital spending plans call for increases, on balance, and the number of firms that have scheduled stepped-up expenditures has increased somewhat compared with recent months.

RETAIL

Third District retailers generally reported slight gains in sales in October compared with September and with October of last year. The modest upward trend in sales appeared to be continuing into November. Merchants said the onset of more seasonable weather helped sales of outerwear and that sales in most merchandise lines picked up as well. Shoppers continue to be cost conscious, according to store executives, preferring lower-priced and store-brands among basic product lines. Stores in the region have stepped up discounting in response to this buying behavior and in order to stimulate holiday shopping. Merchants generally reported that their inventories were at planned levels. Some stores had fallen behind in receiving merchandise as result of the West Coast shipping disruption, but most of those were now fully stocked or nearly so.

Most of the retailers contacted for this report expect the current slow year-over-year sales growth to extend through the holiday shopping period. But they cautioned that military action or terrorism, should it occur, would probably keep shoppers out of the stores, at least temporarily, even during the normally busy year-end season. Despite their continuing efforts to contain costs, many retailers said they will hire their usual complement of seasonal employees.

Auto dealers reported a drop in sales in October. The slower pace appeared to be continuing in November, although the weekly sales rate was close to steady for most dealers. Dealers' inventories have increased, but most dealers expect to work them down if the sales rate remains level, as they expect it to, during the balance of the year.

FINANCE

Outstanding loan volume at Third District banks has edged down in recent weeks. Almost all of the banks contacted for this report said commercial and industrial loan totals have been flat as business firms continue to limit capital spending. Several bankers noted some deterioration in commercial loan quality as borrowing firms have not earned the revenues they had expected this year. According to bank lending officers, this has been particularly the case among manufacturers and retailers. Most of the banks contacted for this report indicated that consumer installment lending and credit card loan volume have eased recently, although a few noted recent growth in home equity lending. Residential mortgage lending continues to grow at area banks. Purchase mortgages have been expanding as a share of mortgage originations, but some bankers expect refinancings to increase in the wake of declining interest rates.

Nearly all the banks surveyed reported compression in interest rate margins and reductions in deposit interest rates. Financial service companies have seen recent increases in sales of annuities as investors, especially retirees, look for higher returns while remaining reluctant to invest in equities.

Bankers in the Third District expect overall lending to remain flat as both businesses and consumers limit their borrowing. Several bankers noted that lower interest rates are unlikely to prompt additional borrowing while the economic outlook remains uncertain and the possibility of armed conflict in the Middle East persists.

REAL ESTATE AND CONSTRUCTION

Third District commercial real estate markets remain soft, but the upward trend in vacancies has shown signs of easing. Recent surveys by area real estate firms indicated that vacancy rates in most markets increased around one-half percentage point in the third quarter, after several quarterly increases of 1 to 2 percentage points in 2001 and earlier this year. The office vacancy rate in the Philadelphia central business district was recently estimated at around 14 percent. The vacancy rate in most suburban markets remains higher, at around 20 percent. Although quoted rents have been fairly stable, effective rental rates have eased as landlords have offered more concessions to renters. Contacts in commercial real estate say that although market conditions are probably near bottom, a strong upturn is unlikely. A number of buildings currently under construction will become available in the next two quarters. Real estate contacts say the new space will tend to limit both rent increases and new construction unless business activity in the region picks up significantly.

Residential real estate agents and home builders generally reported steady rates of sales in October and early November. Price appreciation continued to be strong in many parts of the region. Builders and real estate agents expect a seasonal slowing of sales around the holidays, but they expect the underlying sales pace to remain robust into next year. Builders reported backlogs sufficient to maintain current rates of construction through most of the first half of next year at existing developments, and they are planning to begin new projects as well.

FOURTH DISTRICT – CLEVELAND

The Fourth District's economic activity showed mixed signals during October and the first two weeks of November. In the manufacturing and banking industries, reports varied widely from firm to firm, with little consensus regarding industry conditions. Other industries offered signs of growth: conditions in retail showed modest improvement after two consecutive reports of declining conditions, the slowing in homebuilding activity in the last report appears to have been temporary, and trucking and shipping activity remained steady. Signs of weakness were also present, however, as commercial construction continued to report dismal conditions; steel manufacturers reported falling demand, production, and prices; automobile dealers noted a drop-off in sales; and agriculture continued to report poor conditions.

Despite varied reports of current conditions, most contacts shared a similar outlook: November and December conditions are widely expected to remain much as they were this October. While opinions on exactly when conditions will improve in 2003 varied, most expect the economy to begin improving no later than the close of the second quarter.

Labor conditions were mixed. Some contacts reported slightly expanding their workforces, while others reported imminent layoffs. Firms that are looking for help (including retailers hiring seasonal help) reported no difficulty in finding employees.

Manufacturing

Reports from the manufacturing sector varied widely, with little consensus regarding current conditions in the industry. Compared with September, October production at local facilities either remained the same or decreased slightly for most producers, while sales remained steady or increased slightly. In general, durable goods manufacturers reported increased year-over-year production and sales but expect conditions to slow in the near term. Nondurable manufacturers reported year-over-year decreases in production but sales figures that were comparable with one year ago. Nondurable manufacturers expect conditions to improve in 2003.

In general, manufacturers have been able to significantly reduce their inventories. On the nondurables side, some contacts reported increasing their workforce by either recalling laid off workers or hiring a few new workers. On the durables side, however, some contacts noted cuts and possible layoffs. Several contacts noted significant increases in the prices of some of their inputs. Most have passed on these increases to their customers, although a few noted they could not pass on all of the increases or that their increases did not stick.

Automobile manufacturers in the District reported stable conditions. One plant in the District, which had shut down temporarily in mid-September to adjust inventories in response to weaker-than-expected demand, resumed overtime at the plant in October.

Steelmakers continued to report weak demand for their products during the survey period. Production continued to slow at most plants throughout the District. As expected, spot prices have fallen roughly 10 percent since September 2002. Contract prices, most of which were negotiated earlier in the year, are considerably higher. Contacts expect demand to remain soft through the first quarter of 2003, primarily due to increased domestic inventories and continued competition from imports.

Retail Sales

Non-discount retailers reported a slight improvement in conditions in October. Although some contacts still reported negative year-over-year figures, these reports were an improvement over the survey period. Other retailers reported flat conditions or slight growth in sales. Some also noted a slight pickup in mall traffic. Discount retailers reported that their October sales were between 3 percent and 13 percent higher than last October (and last October's sales were strong for them as well).

While some contacts noted pressure to run promotions and engage in price markdowns and discounting, most noted that promotions were at about the same level as in years past. Promotions are expected to pick up after Thanksgiving. Most retailers anticipate modest improvement in sales this holiday season compared with last year (estimates ranged from 1.5 percent to 4 percent).

Automobile retailers noted that sales had weakened in October and continued to show weakness the first two weeks of November. Contacts reported that year-over-year figures show significant decline, but this is partly due to exceptionally strong sales in October 2001. Most contacts reported decreased showroom activity, and inventories are climbing, ranging between 70 and 90 days (in general, dealers target 60 days). Dealers expect conditions to remain soft through the balance of the year.

Construction

Most area homebuilders reported that they are ahead of their sales plans for the year. Although some contacts reported a slight decline in customer traffic in the last report, the change was not persistent — sales rebounded in October and the first two weeks of November. Smaller firms, in particular, noted sizable increases in sales in the last six weeks.

Despite a favorable interest rate environment, conditions in commercial construction continued to worsen. Business clients are reluctant to make significant capital expenditures, given current uncertainties in both the domestic and international environments. Contacts reported that smaller construction firms are beginning to cease operations because they cannot compete with larger firms for bids, and layoffs continue at firms of all sizes.

Trucking and Shipping

Trucking and shipping activity was steady over the six weeks covered by this report, and contacts continued to characterize business conditions as positive. Most carriers expect activity to remain steady or increase slightly through the balance of the year. Price increases from the summer have stuck, and fourth-quarter profits are expected to be higher than originally forecast. The tightening of emissions standards in October resulted in a de facto reduction in capacity in the industry (companies have been slow to replace old equipment with new and unproven engines designed to meet the standards), and as a result, trucking and shipping firms are not attempting to undercut their competition.

Banking

Loan demand was mixed in the District in October and the first two weeks of November. Growth in commercial loan demand was flat (although a few contacts reported modest gains). Contacts noted that growth in consumer loan demand, which had been characterized as strong in previous reports, slowed considerably over the last sixty days. Consumer loan activity was largely driven by refinancing activity.

Most banks reported steady growth in core deposits and attributed this to aggressive marketing features such as free checking and free online bill payment.

Regarding existing loans, contacts reported that loan delinquencies were up slightly compared with last year.

Agriculture

The severe weather that moved through the area did not affect most farmers in the area because their harvests were already completed, but a few dairy farms reported damage to their facilities. While some grain farmers reported yields near their historical average, most reported yields 50 percent to 75 percent below average. Prices for dairy and livestock farmers' commodities remain low, but input prices, especially feed, are on the rise.

FIFTH DISTRICT–RICHMOND

Overview: Fifth District economic activity grew more slowly in October and early November as softness persisted in the manufacturing sector and service sector activity weakened. Manufacturing shipments were nearly flat in October, while new orders and capacity utilization declined for the third straight month. At services firms, revenue growth was sluggish partly because area layoffs reduced demand. In retail, sales growth was tepid, shopper traffic declined, and hiring for the upcoming holiday season was spotty. District home sales remained robust though, spurred by mortgage rates below 6 percent, and commercial leasing showed hints of a pick-up. Price pressures remained modest across District industries. In agriculture, District farmland received much-needed rain, but the timing could have been better—sodden fields delayed crop harvesting and reduced yields of some crops.

Retail: Most retailers in the Fifth District said sales growth was slow over the last four to six weeks. In the Washington, D.C., area, sniper attacks damped shopper traffic and sales in October, but shoppers began returning to area stores late in the month. A large building supply retailer with a presence throughout the District reported that despite soft sales over the past few weeks, the company will open several new stores in coming months. In the big ticket category, automobile dealers reported slow sales. While some stores in the District have added employees for the upcoming holiday season, many limited their hiring to filling vacated positions. Capital spending plans for 2003 were mixed among retailers, but most planned to upgrade computer hardware or software next year.

Services: Services businesses reported generally sluggish revenue growth since our last report. A sports complex in central North Carolina, for example, said customer demand has slowed in recent weeks because of airline layoffs in that area. An equipment rental firm in Virginia Beach, Va., and a landscaping firm near Frederick, Md., said drought related water restrictions had adversely affected their businesses. However, a caterer in Charleston, W.V., and a fitness center in Charlotte, N.C., reported growing demand and said that they plan to expand their businesses and undertake additional capital spending. Many District service businesses reported plans to upgrade computer hardware and software and to make other technological improvements in 2003. Contacts at District freight hauling firms said they planned to replace some of their aging rolling stock in 2003.

Manufacturing: District manufacturing activity remained weak since our last report. Although shipments firmed somewhat in October, new orders, capacity utilization, and employment continued to fall. However, conditions varied by industry. In October and early November, shipments were down substantially in the food, furniture, and primary metal industries. A furniture manufacturer in North Carolina told us that the industry remained in recession, in part because of soft consumer spending on home furnishings. Several textile and apparel industry contacts reported that the continued strength of the dollar prevented them from competing effectively. Nonetheless, manufacturers in several other industries were upbeat—a producer of industrial machinery and equipment in Maryland, for example, said new orders were picking up. A plastic products manufacturer in North Carolina said that while current business was flat, he expected solid improvement in shipments and new orders over the next six months.

Plans for capital expenditures varied among industries. Contacts in the fabricated metal and printing sectors told us that their capital spending budgets would be greater in 2003 in order to upgrade technology and replace worn out equipment. In contrast, manufacturers at apparel and textile firms in North Carolina and Virginia indicated that they planned to trim capital spending further in 2003 because of reduced sales, lower profit margins and—in one case—a lack of bank financing. In addition, several producers of electrical equipment in Maryland and South Carolina cited the downturn in the economy as the primary reason for scaling back their capital expenditures for next year and indicated that it was unlikely that expansion projects eliminated in 2002 would be restored in 2003.

Finance: Contacts at District financial institutions said that demand for residential mortgages remained strong while demand for commercial loans continued to be weak. Our contacts attributed the growth in residential mortgage lending to the recent declines in interest rates. With mortgage rates dipping below 6 percent, refinance activity was brisk, they said, accounting for between 75 and 80 percent of residential mortgage lending in some cases. A banker in Richmond, Va., told us there was a surge in home refinancing after the Federal Reserve lowered the federal funds rate in early November.

Lower interest rates, however, did little to stoke demand for commercial loans. Several commercial lenders reported stronger loan demand from the public sector, particularly for higher education projects, but most continued to report weak demand from the private sector.

Real Estate: Real estate agents reported solid growth in home sales since our last report. Some District realtors described October sales as fantastic—a Richmond, Va., realtor said sales were twice the level of a year ago. An agent in Greenville, N.C., characterized home sales as excellent, while a realtor in Fredericksburg, Va., said sales were much higher than normal. Properties in the low- to mid-price ranges remained the best sellers. In contrast, markets for higher priced homes cooled in some areas; a homebuilder in Baltimore said he had noticed some softening in the market for upper price range homes while a builder in the Raleigh/Durham area said sales of homes in upper ranges "fell dramatically." While housing prices were generally flat across the District, several areas experienced strong increases. A realtor in Odenton, Md., said prices there rose "dramatically" in recent months due to a lack of inventory. A realtor in Washington, D.C., added that prices in that area were sky high and that sellers were getting "way more" than the listed price for those homes.

Commercial realtors reported a slight pick-up in leasing activity in recent weeks. By sector, demand for retail and industrial space edged higher, but remained weak for office space. Consistent with this view, the supply of vacant space in the office sector continued to edge higher, but was generally unchanged for the retail and industrial markets. A realtor in Richmond, Va., reported that office markets around state capitals were particularly sluggish, as people "waited for the dust to settle" from state budget cuts. Rent levels were flat, except in the industrial sector where rent levels rose modestly. Agents in Sterling, Va., and Waldorf, Md., noted that inquiries about smaller-scale warehouse space had been particularly strong. A smattering of build-to-suit projects were begun since our last report, mostly for retail space. Contacts reported increased interest from small- to mid-sized businesses in buying rather than leasing property, due largely to favorable interest rates.

Tourism: Tourist activity picked up in October and early November. A contact in Myrtle Beach, S.C, said that early fall bookings had increased about eight percent, in part because of more "walk-in" guests. Contacts at mountain resorts also reported higher fall bookings, and they expected good patronage into the winter season. Abundant rainfall in October replenished the water supply at ski resorts in Virginia and West Virginia—a manager at a resort in West Virginia said that the water supply for snowmaking was now at its highest level in three years. The recent rainy weather, however, hampered tourist activity in Virginia Beach. Tourism was also down in Washington, D.C., in October because of concern about the sniper attacks. Occupancy rates at hotels in D.C. were reduced to almost half their normal levels.

Temporary Employment: Contacts at temporary employment agencies reported lukewarm demand for workers in recent weeks due to a generally sluggish economy. Many agents, however, expected the economy to pick up in coming months and believed that the demand for temporary workers would strengthen as a result. Several contacts reported a pick-up in demand for seasonal employees by retailers gearing up for the holiday sales season. Production workers and clerical staff were also widely sought. Wages for temporary employees were little changed since our last report.

Agriculture: Above normal precipitation in October and early November helped replenish drought-stricken areas in the District but hindered crop harvesting and small grain planting in much of the region. Soybean harvesting was behind schedule in South Carolina, Virginia and West Virginia due to the wet fields. Rain also delayed planting of small grains in the Carolinas and in some areas of Virginia. The wet weather severely damaged the cotton crop in South Carolina—District agricultural analysts expect drastic yield reductions. Looking ahead, livestock producers in North Carolina expressed concern about the adequacy of winter feed supplies because of a smaller hay harvest. However, in West Virginia, producers pushed back the feeding of hay to livestock because the recent rainfall had improved pasture conditions.

SIXTH DISTRICT – ATLANTA

Summary: Contacts reported that the Sixth District's economy remained sluggish during October and early November. Retail sales were lackluster overall, and auto sales were well below last year's robust levels. Most housing markets continued to exhibit strength, although softness persisted in the high-end segment. Commercial real estate markets continued to suffer from low demand and vacancy rates remained high. Outside the defense sector, manufacturing activity in the District was generally subdued. Most reports on tourism and business travel continued to be disappointing. Labor market conditions showed little improvement over the month, with many businesses continuing to seek cost savings rather than expanding payrolls. Price increases remained limited.

Consumer Spending: Reports on sales activity during October and early November were mixed but generally near year-ago levels. Retailers noted that apparel sales were slow because of unseasonably warm temperatures. Contacts indicated that inventories were in good shape, but there was concern expressed by a number of contacts that some merchandise orders would not arrive in time for the holiday season because of delays caused by the West Coast port disruptions. District retailers reported that there was a great deal of uncertainty surrounding the upcoming holiday season because of geopolitical concerns and sagging consumer confidence.

Auto sales declined sharply from year-ago levels in October. A number of dealers that handle domestic brands indicated that October had been one of the weakest months of this year. Several dealers said that buyers were less encouraged by the new round of factory incentives than they had been in the past. Some dealers of Japanese and Korean makes reported shortages caused by the disruption of shipments through West Coast ports. Contacts also noted that in Louisiana sales were adversely affected by two tropical storms that erased six selling days from the month. Through September, District's new vehicle registrations remained below comparable levels last year, despite gains in light truck registrations.

Real Estate and Construction: Housing markets continued to benefit from low mortgage rates during October and early November. Most contacts indicated that home sales and new home construction were near strong levels from a year ago. However, several contacts noted some softening in early November – mostly in the high-end market. Reports from Florida continued to be the most upbeat. Weakness persisted in commercial real estate markets across the District. Leasing activity and construction continued at low levels across much of the region.

Manufacturing: Factory activity remained subdued in October and early November. Reports continued to indicate that capital spending plans have been delayed or cancelled as manufacturers wait for the flow of new orders to improve. A producer of carpet tiles for offices reported layoffs, and a textile manufacturer indicated that they expected an especially tough holiday season. The West Coast dock strike forced Asian-owned vehicle manufacturers in Tennessee to fly parts in to keep plants operating. More positively, Daimler Chrysler indicated that they might build a $700 million van assembly plant near Savannah, employing around 3,000 workers. District military contractors continued to receive new defense contracts.

Tourism and Business Travel: Reports from the District's hospitality and tourism sector were mostly negative in October and early November. Disappointing travel activity continued to hurt the south Florida economy. In Miami, some reports indicated that hotel and motel bookings for Thanksgiving and Christmas period were lower than expected. Business travel throughout the District remained at low levels, and business travel expenditures were not expected to improve substantially in the near term, according to contacts. More positively, south Florida contacts reported that the winter cruise season was shaping up to be the busiest ever with strong advance reservations. Also, several tourist destinations in Tennessee reported solid attendance in recent weeks. In New Orleans, construction plans for expanding the city's tourism industry remained on track.

Financial: Reports from the banking sector were mixed for October and early November. Loans outstanding remained at relatively high levels and the pipeline of new loan activity remained steady in some parts of the District, while in other areas loan demand was reportedly slowing. The pace of mortgage originations and home-equity loans decelerated in most areas, and refinancing activity appeared to have slowed in early November. One report indicated that investment banking in the region had displayed some signs of improvement during October.

Labor and Prices: Apart from hospitals, District businesses reported that they were reluctant to add significantly to payrolls in October and early November. Overall, plans for hiring holiday workers were mixed, but most reports indicated that merchants were more cautious about hiring than last year. The ongoing shortage of health care professionals has caused some regional hospitals to begin recruiting medical personnel from overseas. Health care costs continued to be widely cited as a significant concern for District businesses. Medical malpractice premiums were increasing for both hospitals and physicians, and some contacts reported sharp increases in commercial insurance rates.

Agriculture: Significant rainfall during October benefited local cattle ranchers, but delayed harvesting of the cotton crop in several areas. Contacts also noted that damage from recent tropical storms was expected to reduce Louisiana's sugarcane crop by as much as 35 percent this year.

SEVENTH DISTRICT—CHICAGO

Summary. Reports from Seventh District contacts generally suggested that economic activity remained soft in October and early November. Consumer spending softened somewhat in recent weeks, weighed down by lower light vehicle sales. Home sales remained robust, while nonresidential activity was again weak. Manufacturing activity remained relatively weak. In a familiar refrain, lending activity was again strong on the consumer side and soft on the business side. Labor markets remained fairly slack, and demand for new workers was said to be very soft. As the fall harvest neared completion, crop production forecasts were increased slightly for the District, though output was still expected to be down from a year ago.

Consumer spending. Consumer spending weakened further in October and early November, due in part to softening light vehicle sales in the District. Retailers generally indicated that sales results in the Midwest were fairly weak, though mostly in line with lowered expectations. Sales of food and consumables again were said to be stronger than for other goods, particularly big-ticket items such as appliances and electronics. Apparel sales picked up modestly when temperatures dropped but, on balance, remained soft. Inventories reportedly were in line with lowered sales expectations, yet one retailer noted that "stores will be prepared to start discounting goods if necessary" during the holiday shopping season. One contact in casual dining said that sales picked up slightly during October, but had since softened again. Auto dealers from around the District reported that the slower pace of showroom traffic and sales continued through mid-November. Dealers' inventories rose as sales weakened, but were not deemed to be excessive. Tourism travel and spending remained relatively flat across the District. Reports indicated that there was little change in the retail pricing environment.

Construction/real estate. Construction and real estate activity was slightly more mixed in October and early November than in our previous report, according to contacts. On balance, residential real estate and construction markets were described as "strong" and/or "active," but demand may have softened slightly in recent weeks. Most realtors and builders said that they expect 2002 sales totals to fall modestly short of 2001 levels, but as one contact put it, "you can't have a record year every year." A few contacts indicated that potential homebuyers were becoming more hesitant to "get off the fence," with a few actually backing out of deals recently. Overall, nonresidential activity remained soft. Many of our contacts noted that more businesses were making inquiries about space but, again, not many deals were being closed. Office vacancy rates remained relatively high in most areas, and downward pressure on rents persisted. A few contacts in the Chicago area said that rents would remain under pressure through 2003, due to both weak demand and a host of development plans in the pipeline. Softness persisted in the demand for light industrial space in much of the District, while interest for retail space remained mixed.

Manufacturing. Manufacturing activity in the District remained relatively weak through mid-November. According to automakers, nationwide demand for light vehicles remained relatively soft during the first two weeks of November, much like in October. Inventories were moving up, but were said to be in "fair" shape. One automaker reported that while the company was locked into its fourth-quarter production schedule, it was "clearly looking at possible reductions" in the first quarter of 2003, though no changes had been made yet. One contact suggested that the softening demand was partly a "payback" from very strong sales earlier in the year, but said that less generous incentives may have also played a role. A major producer of heavy equipment said that its customers' capital expenditure plans hadn't improved at all, and new orders were "surprisingly weak." A contact with one large producer of telecommunications equipment said that the whole telecom industry was "shell-shocked." In contrast, a producer of machine tools noted that orders were slowly increasing, as were requests for price quotes from potential buyers. The strong housing market continued to buoy production of gypsum wallboard, though demand from nonresidential construction sources remained weak. With very few exceptions, manufacturers continued to report having very little pricing power in their markets.

Banking/finance. Loan demand was again characterized by strength on the household side and softness on the business side. Household lending continued to be driven by refinancing activity. One lender noted that refinancing hit a lull in early October, when long-term mortgage interest rates rose slightly, but had returned to "mania" levels by the end of the month. Standards and terms on most household loans were said to be unchanged, although there were some reports that lenders were looking more closely at auto loans. Contacts indicated little change in consumer loan quality, but one said that it was "a bit shakier, on average." Business loan demand remained soft, and many lenders said they saw "no light at the end of the tunnel." Business loan volumes were reported to be flat to down from the previous reporting period. According to one banker, "businesses aren't doing anything—no spending, no capital expenditures, no hiring." Another described loan demand for furniture, fixtures, and equipment as "virtually non existent." The quality of banks' commercial loan portfolios was mixed, but contacts generally expressed disappointment that it had not yet improved.

Labor markets. Demand for labor in the District remained very soft through mid-November, though there were fewer reports of mass job cuts. After reporting some fairly significant increases in orders during the summer months, a contact with one large staffing firm said that the recovery in temporary help services "stalled" during the fall. Contacts in a wide array of industries indicated that they were hiring only to replace workers who leave, and retailers generally suggested that they would be hiring less holiday help than in previous years. There were several reports that job postings were drawing significantly more applicants than last year, even for relatively low paying jobs. With soft labor markets, the vast majority of contacts said that broad based upward wage pressures remained subdued.

Agriculture. The District's corn and soybean harvests neared completion in mid-November, slowed by precipitation, especially in Wisconsin. The latest USDA report raised forecasted corn output for District states from what was anticipated in October. Still, corn production is expected to be down slightly from last year. Similarly, the soybean forecast was raised from October's, though production is still expected to be down more than 5 percent from a year ago. Crop conditions varied widely, with better yields in the northern and western parts of the District and poor yields in the southern and eastern parts. Reflecting these differences, grain elevators near high-yield areas have had to use outside storage, while business at elevators near low-yield areas has been limited as nearby farmers have stored crops on their farms.

Eighth District - St. Louis

Summary

Contacts in the Eight District report that economic conditions have been mixed. Manufacturing is showing increased closings, layoffs, and consolidations. There are, however, reports of expansion in the services sector. Contacts indicate that activity may be slow during the holiday season in the distribution and logistics industry. Total retail sales have declined slightly. Auto sales were down in September and October. Home sales were still up throughout the District, while the market for commercial real estate was still weak. Reports of demand for residential real estate loans were mixed, while demand for other loans declined moderately in the last three months. In agriculture, early reports suggest that yields and total output of corn, soybean, and cotton will fall from last year's levels.

Consumer Spending

Retail contacts reported that total retail spending declined slightly in October. About half of the contacts noted a decrease in sales compared with 2001 levels. The remaining half reported flat-to-modest growth in October. Over 40 percent of the retailers surveyed noted that sales were below predictions, while another 40 percent expressed that sales met expectations. Food, winter apparel, and home items have been selling well, while electronics, gift, and luxury items have been moving more slowly. About 70 percent of contacts report that inventories are at desired levels. Over 70 percent of retailers surveyed are hopeful of moderate sales growth during the holiday season.

Car dealers in the District report that sales were down in September and October, compared with the same months in 2001. Contacts attribute the fall in sales to poor consumer confidence, a sluggish economy, and the boost from past aggressive incentives cutting into current sales. Half of the dealers surveyed noted no change in the rate of acceptance or rejection rates of finance applications, one fourth indicated tighter standards, and the remaining fourth noted softer standards. About half of the contacts reported inventories to be at desired levels, but over one third noted that inventories are at slightly higher-than-desired levels. Most contacts continue to use financial incentives, and most dealers are cautiously optimistic about the remainder of 2002, expecting flat-to-moderate growth.

Manufacturing and Other Business Activity

Contacts continue to note instances of capital spending and expansion in the District, but reports of closings, layoffs, and consolidation have crept back up since the last report. Manufacturers in the auto parts, die press, aluminum processing, energy, appliance, rail car, and chemical industries have made plans to move to or expand operations in the District. Several of these manufacturers, as well as some in commercial furniture, boat trailers, metal, food, and custom windows industries note steady-to-increasing orders and plans to begin hiring over the next few months. On the flip side, contacts from the tire, apparel, heavy engine, bakery, and plastics industries report plant closings, layoffs, and consolidations. Most cite weak demand as a reason for the cutbacks. A few contacts indicate that reduced customer inventories are causing the sizes of orders to decline.

Reports from the trucking industry indicate a large backlog of freight as a result of the West Coast dock strike in October. A few services companies are opening offices in the District for research and development, and one District distribution and logistics company has announced plans to expand operations. Some contacts have indicated, however, that a weak economy and the relatively fewer number of days between Thanksgiving and Christmas this year may affect holiday deliveries.

Real Estate and Construction

Contacts indicate that home sales are still up in most of the District, primarily due to very low mortgage rates. Home sales are brisk in St. Louis, western Tennessee, and for first-time buyers in Kentucky. Residential construction has been up in most of the District, with the exception of northeastern Arkansas and northeastern Mississippi. In more than half of the District's metropolitan areas year-to-date, house October's building permits were higher than a year ago.

The commercial real estate market has not yet seen a turnaround in the District. In the Memphis area, the market continues to be sluggish. In the St. Louis area, commercial general contractors are reporting flat-to-negative revenue growth. Commercial real estate construction is still growing in northwestern Arkansas and is picking up slightly in western Kentucky. Commercial construction has slowed down in northeastern Arkansas and has declined in the St. Louis metro area.

Banking and Finance

A recent survey of senior loan officers at a sample of District banks indicates a decline in the overall lending activity over the past three months. Banks' credit standards for commercial and industrial (C&I) loans remained generally unchanged for large and small firms. Most contacts reported a moderate decrease in the demand for C&I loans for large and small firms, citing as reasons a decline in customer inventory and accounts receivable funding needs and reduced plant investment.

Credit standards for commercial real estate loans remained mostly unchanged. The demand for commercial real estate loans, however, was reported to be moderately weaker.

Credit standards for residential mortgage loans also remained largely unchanged, but reports on growth of residential mortgage loans were mixed. Credit standards for credit card and consumer loans remained largely unchanged, as well, and the volume of consumer loans decreased moderately.

Agriculture and Natural Resources

The cool, wet, winter-like weather late in the fall continues to plague harvest efforts, particularly in southern parts of the District. The corn and soybean harvest is near completion in the northern part of the District. Early reports suggest that both yields and total output in the District will be down by about 15 percent and 9 percent, respectively. Substantial rainfall in late October delayed the cotton harvest, resulting in substandard crop for many District farmers. Total crop output in the southern portion of the District is estimated to drop by 15 percent from last year. Seeding of the winter wheat crop is winding down in the northern portion of the District, but remains considerably behind schedule in Arkansas, Mississippi, and Tennessee. The crop is in mostly good-to-excellent condition, except in Mississippi, where it is rated as poor-to-fair.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy was sluggish from mid-October through mid-November. Consumer spending was weak, and mining and commercial construction activities were down. Agriculture was mixed, while energy, manufacturing, residential construction and tourism grew. Over this period, labor markets were soft, while wage and price increases were modest. However, significant price increases were noted in gasoline and insurance.

Construction and Real Estate

Commercial construction was down. The value of contracts awarded for new construction projects in Minnesota and the Dakotas was off 8 percent for the three-month period ended in September compared with last year. The vacancy rate for office space increased to 15.7 percent during the third quarter in the Minneapolis-St. Paul area, up from 12.2 percent at the end of 2001, according to a commercial real estate firm. Empty office space was up by over 2 million square feet during 2002 in the Minneapolis-St. Paul area, according to a commercial real estate association. In addition, construction activity for the first nine months of 2002 was down by more than 50 percent from a year ago.

Activity in home building and residential real estate was solid. Housing units authorized in district states were up 11 percent for the three-month period ended in September compared with a year ago. A Minneapolis-area builder reported that the housing market still sees plenty of demand for new construction and contractors are busy. The number of homes sold in St. Cloud, Minn., was up 12 percent for the first nine months of 2002 compared with last year; home prices were up 6.3 percent for the same period.

Consumer Spending and Tourism

Overall retail spending was weak. A major Minneapolis-based department store retailer reported that overall same-store sales were up 1.5 percent for October compared with a year ago. Fall retail sales were soft in northwestern Wisconsin, according to a chamber of commerce official. A representative of a package shipping business noted that mail orders for holiday sales were "big time down"; some mail order companies reported recent sales down 40 percent from a year ago.

However, several mall mangers in the district reported higher sales in October. A mall manager in the Minneapolis area described October sales as strong, while a St. Paul-area mall manager said that although restaurants reported business down a little, most retailers were doing well. Sales were up 3 percent in October compared with a year ago at a mall in Montana.

Auto sales were slower. A Minnesota car dealer reported fewer auto sales in October and early November than during the summer. In Montana, a car dealer reported slow sales and low inventory levels in October compared with a year earlier.

Fall tourism was up in many parts of the district, and prospects for the winter season were generally positive. In the Upper Peninsula of Michigan, fall tourism was up over a year ago, while inquiries for winter activities were solid, according to an official. Tourism and convention activity was up about 4 percent this fall in Duluth, Minn., compared with last year. October traffic and retail sales at a visitor center in South Dakota were up from a year ago, according to a tourism official. Inquiries for winter tourism were comparable to a year ago in Montana.

Manufacturing

Manufacturing activity was up slightly. An October survey of purchasing managers by Creighton University (Omaha, Neb.) indicated increased manufacturing activity in Minnesota and the Dakotas. In addition, preliminary results of the Minneapolis Fed's annual (November) business conditions outlook poll revealed that manufacturers expect conditions to strengthen in 2003. Fifty-nine percent of the manufacturing respondents anticipate increased sales in 2003 over 2002 compared with 10 percent who expect sales to decrease. Advisory council members from the Upper Peninsula of Michigan plan to expand production at their manufacturing facilities. In Montana, an aluminum smelter expanded production, and a steel manufacturer planned a major expansion. However, a lumber mill will close in Montana, and a major food processor announced plans to shut a frozen bakery goods plant in Minnesota. In addition, a soft drink bottling plant in Minnesota closed.

Energy and Mining

Activity in the energy sector was up slightly, while the mining sector was down somewhat. Early November district oil and natural gas production levels were up since early October, but exploration has been flat. Meanwhile, due to weak orders an iron ore mine in northern Minnesota placed all capital improvement projects on hold for the remainder of 2002.

Agriculture

The agricultural economy was mixed. With the fall harvest nearly complete, crop producers were generally seeing higher output, prices and expenses. The U.S. Department of Agriculture (USDA) forecasts big increases in 2002 from 2001 in corn, soybean and wheat production in most district states. However, "High drying expenses, more fuel use during combining, and big repair bills are expected to cut into the increased income available from better prices per bushel this year," wrote the USDA about Minnesota crop conditions. Meanwhile, livestock producers continued to suffer from low prices. The USDA projects 2002 prices to decrease from 2001 by 8 percent for choice steers and 26 percent for hogs. "It is a rare time for all of livestock to suffer while the row crops could have dramatic income/acre increases over past years," commented a Minnesota lender in the Minneapolis Fed's third quarter (September) agricultural credit conditions survey.

Employment, Wages and Prices

Labor markets remained soft since the last report, with some layoffs noted. A circuit board and semiconductor plant in northern Wisconsin reported that it plans to lay off 225 people by the end of November. A Montana semiconductor plant recently announced the reduction of 170 jobs. In Minnesota, a business software company will lay off 130 workers, and a brokerage firm will lay off 55 employees. A mine in northern Minnesota recently laid off 37 workers. According to a recent survey conducted by the *St. Cloud (Minn.) Area Quarterly Business Report*, 62 percent of area business leaders expect their employment to remain flat over the next six months; 25 percent plan to increase staffing levels. According to preliminary results of the Minneapolis Fed's outlook poll, 66 percent of respondents predict the number of employees at their companies will remain unchanged in 2003 from 2002.

However, in South Dakota a call center recently announced plans to hire as many as 120 workers, and an insurance company expects to add 60 workers during 2003. Fast food restaurants were having difficulty finding employees in Billings, Mont., according to a bank director. Initial claims for unemployment insurance in Minnesota dropped 12 percent in October compared with a year ago.

Wage increases were modest. Wages for manufacturing jobs increased only 1.7 percent during the three-month period ended in September. Almost 70 percent of respondents to the Minneapolis Fed's outlook poll anticipate wages and salaries in their communities to increase between 2 percent and 3 percent in 2003.

Price increases were also modest, with the exception of significant increases in health insurance and gasoline. Only 25 percent of respondents to the Minneapolis Fed's outlook poll expect their product prices to increase next year, while 58 percent project prices to remain unchanged. A city in the Upper Peninsula recently budgeted an increase of 20 percent for health care insurance costs in 2003 compared with the current year. During the first week of November gasoline prices in Minnesota were 20 percent higher than a year earlier.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy showed some signs of improvement in late October and early November after slowing earlier in the fall. Retail sales excluding autos rose somewhat, the manufacturing sector appeared to stabilize, and energy activity edged up. In addition, housing activity remained solid across most of the district. On the negative side, however, auto sales continued to decline, commercial real estate markets weakened further, and layoff announcements remained higher than a few months ago. In the farm economy, recent rains helped alleviate some of the difficulties caused by the drought. Wage and price pressures were generally subdued.

Consumer Spending. Retail sales in the district increased slightly in late October and early November following small declines in previous months. Sales at discount stores and many department stores rose solidly and spending on all types of apparel was strong. High-end stores and some other retailers, however, reported flat to slightly lower sales compared with earlier in the fall. Managers of stores experiencing a recent increase in sales were optimistic about the approaching holiday season, while other managers were more uncertain. There was generally more satisfaction about inventory positions than in previous surveys, as the overall stronger sales in recent weeks have helped reduce stock levels somewhat. Motor vehicle sales across the district continued to decline in late October and early November, despite generous incentives from manufacturers. Most dealers expect sales to improve somewhat over the next few months, but only a few plan to build inventories from current levels. In the tourism industry, leisure travel was solid in most of the district. Ski resort operators in Colorado and New Mexico were encouraged by early snows, and several resorts reported sizable increases in advance bookings from recent years.

Manufacturing. District manufacturing activity appeared to stabilize somewhat in late October and early November after easing earlier in the fall, and plant managers' optimism about future activity increased. Production, shipments, and new orders all improved from the previous survey. However, these measures of activity remained close to the weak levels posted last fall, and most plants were still operating at only medium levels of capacity utilization. Managers generally reported few difficulties in obtaining materials, but firms continued to face a squeeze on profits due to increases in materials prices and decreases in selling prices. Looking ahead, an even higher proportion of firms than in the previous survey expect to raise production over the next six months. However, managers generally do not expect significant changes in capital spending or hiring over that time period. Many firms said they can nevertheless continue to modestly increase production in the near term by raising utilization rates, improving management techniques and productivity, and requiring more overtime from current workers.

Real Estate and Construction. Residential real estate activity in the district remained solid in late October and early November, but most commercial real estate markets weakened further. Housing starts continued at high levels in most areas and even showed some signs of steadying in Colorado, where activity had been slowing. Most builders expect only seasonal slowing in home construction through the winter. Realtors reported that home sales increased in most district cities and remained solid elsewhere. However, they also reported slight declines in average selling prices in some areas. Home sales are expected to remain fairly steady in coming months. Mortgage lending activity remained strong in late October and early November, particularly for refinancings. As in the previous survey, lenders reported that most of the recent refinancing activity was for the purpose of reducing monthly payments rather than for taking cash out. Mortgage demand is generally expected to remain solid in coming months. Commercial real estate activity remained depressed across the district. Construction, absorption, and prices of office space in most district cities were down slightly from late summer, and vacancy rates were somewhat higher. Commercial realtors in some areas foresee continued weakening in office markets, while others expect activity to level off in the near future.

Banking. Bankers reported that loans edged up and deposits held steady since the last survey, raising loan-deposit ratios slightly. Demand increased slightly for commercial and industrial loans, consumer loans, home mortgages, and home equity loans. Demand for other categories was unchanged. Some bankers attributed the increased demand for consumer loans, home mortgages, and home equity loans to lower interest rates. On the deposit side, small increases in liquid accounts such as demand deposits and NOW accounts were offset by a slight decline in large CDs. All respondent banks reduced their prime lending rates and consumer lending rates since the last survey. Lending standards were generally unchanged.

Energy. District energy activity increased slightly in late October and early November. The count of active oil and gas drilling rigs in the region edged up following recent rises in some energy prices. Although inventories of natural gas are high, district contacts say current productive capacity may be insufficient to replenish supplies in the event of unusual increases in demand over the winter. As a result, natural gas prices are largely expected to hold recent gains, leading to further increases in drilling activity.

Agriculture. Difficulties in the district's farm economy due to this year's drought were alleviated somewhat by rain in many areas in late October and early November. The rains delayed the fall harvest but aided in the early development of the winter wheat crop. Subsoil moisture was still very short, however, and concerns remained about further development of the wheat crop and recovery of district pastures if the moisture subsides. Despite poor pasture conditions, adequate forage supplies were expected for the winter months, as more corn was harvested for silage instead of grain this year. However, feedstuffs were more expensive than normal, and producers in the western part of the district had to travel long distances to buy hay. District bankers reported there have been relatively few recent land sales and that land values were holding steady.

Wages and Prices. Wage and price pressures remained virtually nonexistent across the district in late October and early November. Labor markets were still very slack, allowing many employers to be more selective in hiring. Layoff announcements in the district also continued at a higher rate than at the end of the summer. There was practically no evidence of wage pressures, and most firms expect little change in their wage structure for next year. However, many employers continued to express concerns about rising health care premiums, and some firms said they would be passing more of the cost increases on to employees in 2003. Retail prices remained flat in late October and early November, and retailers generally expect stable prices until post-holiday clearance sales begin. Some builders reported increases in plywood prices, but construction materials prices are expected to be flat in coming months. Manufacturers reported another slight decline in finished goods prices and expect them to edge down further. Prices for some manufacturing materials—mainly steel and petroleum-based products—continued to rise, but not as much as in past surveys. Plant managers expect only modest increases in materials prices going forward.

ELEVENTH DISTRICT—DALLAS

Overall Eleventh District economic activity appeared to be unchanged or down slightly in late October and the first half of November. Contacts continued to indicate that uncertainty is affecting their business decisions, and many respondents do not expect a pick up in the economy until next year. Overall manufacturing activity was down slightly, and activity in the service sector remained weak. Construction and real estate activity continued to be soft. There was little change reported in the energy sector or the financial services industry. Automobile sales were down in early November, but other retail sales rebounded from a very weak September. Agricultural conditions were mostly favorable.

Prices and Labor Markets. There were more reports of price declines than price increases since the last Beige Book. Crude oil prices remained near $30 per barrel through mid-October then weakened steadily to near $25 per barrel in early November. U.S. crude inventories are low, and contacts say prices declined because the war premium has fallen. Natural gas inventories are at record levels, and prices have weakened to under $4 per thousand cubic feet. Prices declined for polyethylene and PVC, but prices were unchanged for other chemicals.

Selling prices were flat to down for most construction-related manufactured products, with intense competition expected to continue putting downward pressure on prices. Cement producers said prices are down 15 percent from a year ago. Selling prices for reinforced steel were down and at very low levels, according to producers. There continues to be downward price pressures on real estate. In Dallas, according to contacts, some ten-year leases include two years free rent. Homebuilders report heavy use of price incentives. An Austin builder said a $180,000 home could come with as much as $15,000 of free upgrades. In contrast with most other sectors, contacts continue to report rising prices for all types of insurance.

The labor market remained soft. There were reports of continued layoffs or failure to replace attrition in the manufacturing sector. Firms that supply temporary workers say wages are unchanged or slightly down from last year. Legal firms say salary increases are expected to be smaller than usual.

Manufacturing. Overall manufacturing activity was down slightly over the past few weeks. Demand continued to decline for most construction-related manufacturing products, including wood products, fabricated metal products, brick and cement. The drop in sales was the result of continued slowing in commercial and residential construction, according to contacts who noted a very high level of competition for fewer and smaller projects. Inventories were rising for some metals products. Paper producers said sales declined more than expected.

Orders for high-tech manufactured products were flat to slightly up, but employment levels continued to shrink. Contacts were slightly more optimistic than the last report because some leading indicators of future orders picked up in the first two weeks of November. Inventories of most products were lean, they said, although stocks of some final products are high. One respondent noted that a significant pickup is unlikely because excess capacity will likely restrain business capital investment.

Demand for gasoline has been strong and refineries have been "running very hard" in the last few weeks. Refiners reported improved margins, as product prices generally rose more rapidly or fell more slowly than crude prices. Demand for petrochemicals was still weak, according to producers who say that the recovery in chemicals that seemed to be underway for much of the year has stalled.

Services. Activity in the service sector remained weak. Firms that supply temporary workers continued to report slow improvement. Legal contacts reported steady growth in litigation, bankruptcy and real estate activity. But legal firms said there is still no demand for transactions work, and they were more pessimistic about the outlook for this type of work.

Transportation services remain at very weak levels, according to contacts. Airline travel is very sluggish, particularly for business. Holiday travel bookings seem to be weaker than the past two years, and travelers appear to be taking trips of shorter duration.

Retail Sales. Retail sales picked up modestly in early November, but sales growth remained soft compared to a year ago. Retailers expressed concern that the holiday selling season—between Thanksgiving and Christmas—will be a week shorter than last year. Competition continues to put downward pressure on prices.

Automobile sales are down. Dealers say it is very difficult to get customers into showrooms, and they are very concerned that recent rebates and financing incentives have "stolen sales from the future." Trade-in prices on used vehicles have fallen dramatically because there is a flood of one- and two-year old vehicles coming in off leases. Insurance costs are also affecting the ability of typical buyers to purchase a new vehicle, dealers say.

Financial Services. Overall lending activity is described as flat to mildly positive. Consumer lending was the weakest category, and mortgage refinancing remained the strongest. Deposit growth was still strong, especially at smaller banks and credit unions that focus on consumer accounts. Contacts expected continued loan and deposit growth, but net income is expected to be flat. There were no significant changes to charge offs or delinquencies reported.

Construction and Real Estate. Construction and real estate activity remained weak. Contacts said office-leasing activity increased slightly, but noted the rise was the result of "bottom feeders" and aggressive subleasing as opposed to an improvement in the market conditions. Homebuilders continued to sell a lot of low-priced product, but traffic is down and cancellations are commonplace, they say. The overall multifamily segment will "get worse before it gets better," according to contacts.

Energy. Overall energy activity was unchanged. U.S. drilling has stayed near 850 working rigs for the past 26 weeks, with a shift from gas-directed drilling to oil-directed drilling in recent weeks. Offshore activity is also in the same pattern of no significant change, with both the level of activity and day-rates for rigs reported as stable. There was some improvement in the demand for services and machinery for international activity. Respondents see no signs of improvement this year but are more optimistic about early next year.

Agriculture. Agricultural conditions continued to be mostly favorable. Rainy weather delayed field operations, but producers are pleased with the cotton harvest and the outlook for the winter wheat crop.

TWELFTH DISTRICT–SAN FRANCISCO

Reports from Twelfth District contacts indicated sluggish economic activity in October and early November, with the pace of growth down from the previous survey period. Respondents reported little pressure on prices for most consumer goods and services. Wage increases also were limited, although increased health benefit expenditures boosted employee compensation costs. Consumer spending softened in recent weeks, especially for big-ticket items such as automobiles, furniture, and consumer electronics. Demand for manufactured goods other than semiconductors remained weak, with contacts noting deterioration in orders. District agricultural producers reported little change in conditions, with balanced supply and demand keeping prices above costs. District housing demand remained solid, although signs of cooling were apparent. Commercial real estate markets continued to weaken, with vacancy rates rising and lease prices falling. Bank contacts reported ongoing reductions in commercial loan demand and some slowing in the pace of nonresidential consumer borrowing.

Prices and Wages

District contacts reported little change in consumer prices in the recent survey period but noted downward pressure on input costs, especially energy. Shipping costs were the main exception to this trend; trucking and shipping companies (vessel and air) reportedly imposed transit surcharges and congestion fees at many West Coast ports in response to disruptions stemming from the 11-day lockout. Overall, falling input costs reportedly helped boost profit margins in a number of sectors.

Ongoing weakness in labor markets further eased wage and salary pressures in the District during the most recent survey period. Wage increases were scant across sectors, and contacts noted that many firms now have cancelled year-end bonus programs scheduled earlier in the year. On the benefit side, employers noted rapid increases in employee health care costs this year—15 to 20 percent higher than last year. A number of contacts noted that employees are being asked to absorb a portion of these increases.

Retail Trade and Services

District consumers reportedly pulled back their spending in October and early November, especially for big-ticket items. District auto dealers noted that sales of new cars and trucks fell 20 to 30 percent in October and early November relative to September volumes. The decline owed in part to the end of zero percent financing on a number of models and the decline in trade-in values on used cars. Despite the rapid shift in vehicle demand, contacts reported no inventory imbalances. Sellers of other durable goods including furniture, consumer electronics, and appliances also reported decreased demand for their goods. Specialty apparel sellers and big-box retailers reported stable nominal sales, although deep discounting continued to limit profitability. In general, retailers reported that inventory-to-sales ratios remained low and at targeted levels.

Respondents in the services sector noted that the demand for IT services and software development and accounting, financial, and legal services remained soft in recent weeks. Public relations and advertising firms got a boost from national and local election campaigns and from retailers gearing up for the holiday selling season. District travel and tourism sectors remained weak in October and early November, despite generally favorable weather conditions—early snows and cold conditions in ski areas and warmer-than-average weather in Northern and Southern California. Domestic tourism mostly has returned to pre-September 11 levels, though international visitor counts remain weak.

Manufacturing

Conditions in District manufacturing were mixed in recent weeks, as demand and orders weakened but profitability improved. Falling input prices, increased efficiency, and ongoing job cuts boosted profits among many District manufacturers, especially in the high-tech sector. However, District contacts reported declines in new orders and increased shipment cancellations in recent weeks, prompting many to mark down sales forecasts for the fourth quarter. Excess capacity, both in capital and employees, remained a serious concern among most District manufacturers. In contrast, inventories reportedly were low relative to sales, keeping carrying costs in check.

Agriculture and Resource-related Industries

District agricultural conditions reportedly changed little from the previous survey period, with balanced demand and supply keeping prices above costs for most producers. Increased shipping costs were the primary concern, with many producers reporting transit surcharges and congestion fees at West Coast ports. Lower energy costs reportedly helped boost profit margins, partially offsetting ongoing increases in employee wage bills. District contacts noted that the supply of immigrant laborers from Mexico has declined in recent months, boosting wage rates for agricultural workers during this harvest season.

Real Estate and Construction

Conditions in real estate softened during the most recent survey period, with slower growth in home sales and prices and further deterioration in a number of commercial office markets. The release of office space among several financial and IT companies pushed office vacancies higher and lease rates lower in several District cities. Although the increases were modest relative tó earlier in the year, they came after several months of stable conditions. Accordingly, new commercial development has all but stopped in the District.

Residential real estate markets in the District remained solid in recent weeks, although the pace of sales and price appreciation slowed, especially at the high end of the market. The slower pace of activity damped residential construction in many District states. In the San Francisco Bay Area, construction on some multifamily housing projects was put on hold. Elsewhere in the District, start times for several residential developments have been pushed back until the economy improves.

Financial Institutions

District contacts reported solid growth in deposits and further declines in nonresidential loan demand in October and early November. In most areas, home mortgage financing activities remained high, although the pace of applications has slowed relative to earlier in the year. District financial contacts noted a drop in demand for nonresidential consumer loans, driven in part by reduced vehicle purchases. Loan delinquencies and defaults were changed little during the recent survey period. Banking contacts noted increased inquiries on the part of businesses regarding loans for inventory investment. However, as of early November, demand for such loans had not increased.