



October 15, 2003

Summary of Commentary on Current Economic Conditions by Federal Reserve District

Summary

Prepared at the Federal Reserve Bank of New York and based on information collected before October 7, 2003. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Information received from District Banks suggests that, on balance, the pace of economic expansion has picked up since the last report. Ten of the twelve districts indicate that activity has been expanding, while two--Boston and Cleveland--report mixed but steady levels of economic activity. Overall, both wages and prices of finished goods and services remained relatively stable, though there were scattered reports of business input cost pressures. Hurricane Isabel inflicted some limited damage across much of the Richmond District, but the disruptions to activity from the storm were said to be short-lived.

Consumer spending generally strengthened, though most districts report a recent pullback in auto sales. Improving sales trends are reported in New York, Philadelphia, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. Retail inventories are generally described to be at or close to desired levels, and retailers generally anticipate modest year-over-year gains for the upcoming holiday season. Most districts report strengthening in manufacturing activity. Employment in this sector remained generally weak, though some districts note pockets of firming.

Broad-based strength is reported in residential real estate and construction, but commercial real estate markets are still described as sluggish. Travel and tourism activity was mixed but, on balance, showed some improvement. Reports from most other service industries also show improvement.

Banks in almost all districts report a substantial drop-off in refinancing activity since the last report, though there were a few reports of improvement toward the end of September. There was some pickup in business loan demand, while home mortgage and consumer lending were mixed. Credit quality was generally described as good, with only scattered reports of increased delinquency rates. Most districts report favorable weather conditions and improved agriculture yields since the last report, though Richmond reports significant crop damage from Hurricane Isabel.

Labor markets generally remain slack, but some signs of a pickup are reported in New York,

Richmond, Chicago, Minneapolis, and Dallas. Prices of finished goods were generally stable, and wage increases continued to be quite modest, though many districts note continued escalation of non-wage benefit costs--particularly health insurance. Also, fairly sharp price increases are reported for cattle and certain commodities, such as steel, lumber, plywood, and natural gas.

Consumer Spending

Most districts report a general strengthening in retail sales but some softening in automobile purchases. A few districts credit the recent federal tax rebates with temporarily boosting sales, though the timing of the effect on sales varied. Non-auto sales are generally said to be improving in New York, Philadelphia, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, while Cleveland, Atlanta, and Chicago describe sales as steady or moderating but still ahead of plan. Boston and Richmond characterize sales as flat but with some pockets of strength. Richmond reports that sales lost due to hurricane-related closures were quickly made up, and that hardware stores, grocery stores, and restaurants saw brisk business after the storm.

Recent reductions in motor vehicle sales are reported in most districts. Automobile sales are said to have weakened in the Cleveland, Atlanta, Chicago, Minneapolis, and Kansas City, Dallas, and San Francisco Districts. St. Louis, on the other hand, reports some improvement in vehicle sales in recent weeks, though they were still lower than a year ago. Also, sales of imports are said to be holding up better than those of domestic makes in the St. Louis, and San Francisco Districts.

Non-auto inventories are generally reported to be in good shape in almost all districts, but vehicle inventories are said to be higher than desired in Cleveland, Chicago, and St. Louis. Looking ahead to the rest of 2003, retailers in most districts are reported to be cautiously optimistic. Modest sales growth is anticipated in Boston, New York, Philadelphia, Cleveland, Atlanta, St. Louis, and Kansas City, while the remaining districts did not specify sales expectations.

Manufacturing

The majority of the districts report a pickup in manufacturing activity, with several indicating significant improvement in a wide variety of industries. Machine tool orders strengthened in the Atlanta and Chicago Districts; semiconductor producers note a pickup in demand in the San Francisco District; contacts in lumber and construction related materials see improvement in several districts; and high-tech manufacturers in the Dallas District indicate gains. On the downside, Richmond reports a contraction in its manufacturing sector, and contacts in Boston report weak demand and a decline in revenues. The Minneapolis District notes only slight gains, and the Dallas and Cleveland Districts report mixed activity. Kansas City, Boston, and St. Louis report a decline in activity in the aerospace industry, and several districts indicate marked deterioration in the textile industry. Activity in the transportation equipment industry was mixed, with declines noted in the Philadelphia District, little change in Chicago, but increases in St. Louis. Several districts report a continuing low level of inventories, and most contacts report that input prices remain high, and above year-ago levels, but have not accelerated further since the last report.

Manufacturing employment exhibited modest gains in some districts, but in most was stable or declining. The Kansas City, Cleveland, and New York Districts report increases in hours worked, and Kansas City, New York, and St. Louis report hiring gains. Capital spending

activity was mixed, with contacts in several districts reporting plans to increase capital spending, while the majority of contacts from other districts cite hesitation and lackluster spending plans going forward.

Real Estate and Construction

Residential real estate markets continued to show strength in virtually all districts, while commercial real estate markets remained generally sluggish. Virtually all districts describe housing markets as robust, despite relatively modest signs of slowing in the Boston, Richmond, Kansas City, and San Francisco Districts. On the other hand, signs of further strengthening are noted in New York, St. Louis, Minneapolis, and Kansas City. A few districts specify that the recent increase in mortgage rates appears to have had at most a limited impact on home sales. Reports from Boston, New York, Chicago, and Kansas City note particular strength for entry-level or lower- to mid-priced homes, as opposed to the high end of the market.

Residential construction is also indicated to be strong in most districts. Recent increases in construction activity are reported in New York, Atlanta, St. Louis, and Minneapolis. Kansas City notes that builders have had trouble obtaining plywood, while reports from Boston, New York, Cleveland, Atlanta, and San Francisco indicate sharp increases in lumber and plywood costs, which, in turn, are said to be squeezing builders' profit margins.

Commercial real estate markets, in contrast, continue to be characterized as weak in almost all districts. Still, a number of districts indicate slight signs of firming since the last report--specifically New York, Cleveland, Atlanta, St. Louis, Kansas City, and Dallas. On the other hand, renewed signs of slowing are reported from Chicago and Minneapolis, while conditions are described as stagnant in Richmond and San Francisco.

Tourism and Services

Tourism and travel activity was mixed but, on balance, improved; however, both business travel and international visitors were still lagging, although there were some scattered signs of recovery. Overall, tourism was described as robust in New York, Kansas City, and San Francisco but sluggish in the Boston District. Since the last report, New York and San Francisco report a pickup in international visitors, while Boston, Minneapolis, and Kansas City note some pickup in business travel. On the other hand, Atlanta describes both of these segments as persistently weak. Richmond reports that Hurricane Isabel caused substantial hotel damage and widespread cancellations along much of the Virginia and North Carolina shore. The evacuations from the storm resulted in a noticeable pickup in business at hotels in less affected parts of the district.

Business conditions in other service industry sectors varied but generally improved. Increased demand for various business-related services (such as legal, accounting, IT, and executive search) is noted in Philadelphia, Richmond, Dallas, and San Francisco. Increases in trucking are reported in Cleveland, while Dallas indicates a decrease in trucking volume but an increase in rail shipments, and New York reports strong increases in port traffic. Boston reports mixed to firmer conditions in the insurance industry, with industry contacts reporting little financial impact from the August blackout and expressing optimism about the business outlook.

Banking and Finance

Banks report mixed but generally favorable conditions. Loan demand is generally steady

overall, with some improvement from the commercial sector, but steep declines in mortgage refinancing. Demand for commercial loans strengthened in Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Dallas, and San Francisco, and was little changed in New York. While none of the districts indicates weakening in business lending, a few characterized the level of activity as still low. Demand for consumer and home mortgage loans was steady to weaker in New York, Cleveland, and Richmond, but some firming was indicated in Philadelphia, Chicago, St. Louis, and Kansas City. Most districts report sizable declines in mortgage refinancing activity, though Dallas indicates persistent strength in this category, while Chicago and Minneapolis report a slight bounceback in late September.

Loan quality is generally described as good, with delinquency rates little changed since the last report. Chicago and Dallas report some improvement in loan quality and Atlanta says that loan delinquencies "remained manageable," while Philadelphia cites an increase in debt-service to income ratios, and New York indicates an uptick in delinquencies on consumer and home mortgage loans.

Aside from lending, financial institutions report favorable conditions and brisk growth. New York's securities industry reports strong growth in revenue, profits and compensation. Similarly, financial institutions in the Dallas District report a pickup in mergers and acquisition activity, leading to higher fee income. Finally, San Francisco suggests that a recent acceleration in business deposit in-flows further reflects a pickup in general economic activity.

Agriculture and Natural Resources

Most districts report favorable weather conditions and improved agriculture yields since the last report. However, Hurricane Isabel wrought significant damage in the Richmond District. A combination of flooding, high winds, and power outages resulted in damage to crops, fruit, livestock, and fishing equipment in much of the Richmond District. Otherwise, recent rains have improved crop yields in the St. Louis, San Francisco, Atlanta, Kansas City, and Chicago Districts. These rains, however, caused spotty problems for fall planting in some districts. Suppliers from all cattle-producing districts report banner prices, decent pasture conditions, and are optimistic that profits will follow suit.

Activity in the energy industry was mixed. The Minneapolis District indicates a slight decline in oil and natural gas exploration levels since the last report, while the Kansas City District reports a moderate expansion in oil and gas drilling. The Dallas District reports that activity remained at a relatively high level, but was not quite as strong as might be expected given the current price of oil and natural gas.

Labor Markets, Wages and Prices

Most districts continue to describe labor markets as slack, though there are modest signs of improvement in a number of districts. In general, labor markets are characterized as stagnant in Boston, Cleveland, Atlanta, Minneapolis, and San Francisco. On the other hand, Richmond, Chicago, Minneapolis, and Dallas report increased demand for temporary workers, while New York reports a pickup in hiring across a number of sectors. Both New York and Chicago note that much of the hiring is coming from smaller firms. Kansas City notes some decrease in layoff announcements, as well as an increase in hiring plans.

Modest wage growth is reported across the nation, though continued escalation in non-wage benefits, particularly health insurance, are noted in Atlanta, Chicago, Minneapolis, Kansas

City, Dallas, and San Francisco. Rising benefit costs are said to be holding down wage increases in the Atlanta District and deterring hiring in Dallas.

The various districts report little change in prices of consumer goods and services, but steep escalation in certain commodity prices. Retail prices are reported to be stable in Cleveland, Atlanta, Chicago, and San Francisco; steady to slightly higher in Philadelphia, Minneapolis, and Kansas City; and steady to slightly lower in Boston, New York, and Dallas.

In contrast with the general price stability for finished goods and services, prices for a number of commodities have risen sharply. Steep increases in lumber and plywood costs are noted in Boston, New York, Cleveland, Atlanta, Kansas City, and San Francisco--some of this is attributed to post-war rebuilding in Iraq, post-hurricane repairs along the Mid-Atlantic seaboard, and fires in the West that affected supply. There were also reports of steep price increases for cattle, steel, and natural gas. However, oil and gasoline prices have retreated, following a sharp run-up in August. In terms of intermediate services, a noticeable increase in freight costs is reported in the Minneapolis District, but declines in commercial rents are seen in Richmond, Chicago, and Minneapolis.

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First District--Boston

According to business contacts in the retail and manufacturing sectors, economic activity in the First District is largely stagnant. Most merchants report sales in September about level with a year ago, while the majority of contacted manufacturers indicate that third-quarter revenues were below year-earlier levels. Insurance contacts say revenues are level, except for some property and casualty insurers who indicate their business continues to grow. Demand for residential real estate throughout the region is still strong. Respondents are not increasing employment levels; retailers are holding headcounts steady while most manufacturers continue layoffs. The outlook remains cautious.

Retail and Tourism

Retailers in New England report sales in September are mostly flat compared to year earlier, with some pockets of strength. Contacts in the lumber and home-builder sector indicate residential construction and home improvements continue to positively affect their business. A furniture retailer reports that sales continued to be strong through September, slightly exceeding expectations. An entertainment equipment retailer notes a slowdown in September following an up-tick in August. A major department store indicates sales are mostly flat, with some increases in women's apparel but softening sales of home products.

According to travel and tourism contacts, the hospitality industry remains sluggish. Respondents in the Boston area report some slight improvements, including a modest pick-up in business travelers. Contacts indicate leisure travelers continue to favor drive-to destinations for day or weekend trips. Prices remain extremely competitive, with many travelers choosing to book reservations online for the lowest prices. One contact notes future bookings in northern New England are particularly weak, with higher-than-usual vacancy rates for the upcoming Columbus Day weekend.

Most retail respondents indicate they are maintaining lean inventory levels and modest capital spending plans. Employment is said to be stable and any wage increases are minimal. Vendor prices are reportedly mixed, with notable increases in plywood and lumber prices.

Many retail contacts note slight decreases in selling prices, particularly in the travel and tourism sector, but others say their price changes are mixed. Overall, most retail respondents expect slow growth over the next six months.

Manufacturing and Related Services

A majority of First District manufacturing contacts say that their third quarter revenues were below year-earlier levels. Demand for aerospace products reportedly continues to weaken, apart from items used by the military. Sales of metal products also are down from a year earlier. A textile manufacturer indicates that sales have been falling because of inventory reductions at retail. By contrast with the general trend, a publishing firm reports spotty improvement, a computer hardware firm indicates continued gains relative to 2002 sales, and some other contacts are experiencing rising sales of home and automotive products.

Manufacturers report that they are paying more for energy, insurance, and euro-denominated inputs. Other materials costs remain under control. Most contacts indicate that they have little if any scope for increasing their selling prices, with the possible exception of new product introductions.

Most of the contacted manufacturers are continuing to pare back employment through selective layoffs. Pay increases for 2003 are mostly in the range of 2.5 to 3.5 percent. A couple of firms report that their overall capital spending will be up this year, but most are holding the line. Some companies are undertaking significant IT projects, but simultaneously cutting other investments.

In discussing the outlook for 2004, manufacturing contacts indicate that their customers are likely to remain cautious. To the extent that they foresee improvements in their business, manufacturers expect them to be due largely to their success in increasing market share through cost cutting or product innovation.

Residential Real Estate

Residential real estate markets in New England remain active. Contacts continue to report low inventory levels, although high-priced houses are staying on the market longer. Lower- and mid-priced houses sell very quickly in all parts of the region. Demand remains strong, spurred by low interest rates. One contact reports that the number of single-family homes sold in Massachusetts in August was 17 percent higher than a year earlier, and the number of condominiums sold increased by 27 percent. The average sale prices rose as well, with the average price for condominiums reaching a record high level in August. Contacts expect housing markets to remain steady, with lower activity levels in the winter. Most anticipate the markets will become busy again in the spring, as long as interest rates stay low.

Insurance

Contacts from the property and casualty insurance industry report positive or flat top line growth, while annuity and traditional life insurance sales have stayed level with little potential for change. Respondents observe that revenue growth rates have moderated, in part because of increased price competition and in part because equity markets have stabilized somewhat, allowing companies to generate more operating capital. Most contacts are optimistic about the current state of the industry and think that pricing in the property and casualty market has largely equilibrated.

While generating many small claims, the power outage in August did not have a large financial impact on contacted insurance firms. Some companies, however, report extending

the workweek to 70 hours to meet client needs after the outage.

Employment and capital budgets remain largely flat, although one company plans to expand substantially its capital budget for 2004. The majority of insurance contacts is optimistic and expects a continuation of gradual improvements.

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Second District--New York

The Second District's economy has shown further signs of strengthening in recent weeks. The labor market, in particular, has shown signs of firming, while price pressures have diminished. Retailers report that sales were mixed but generally ahead of plan in September; selling prices are said to be modestly lower than a year ago, on average, and retail inventories at desired levels. Recent business surveys point to some acceleration in manufacturing activity since the last report, as well as a noticeable pickup in employment and steady to declining input prices.

Both residential construction and the market for existing homes have strengthened. Office vacancy rates in and around New York City were generally stable in the third quarter, though Manhattan's market is said to have taken on a firmer tone. Conditions in New York City's financial industry have reportedly improved further since the last report, with brisk growth in revenue, profits and compensation, as well as an upturn in industry employment. On a less positive note, consumer confidence declined in September, to its lowest level since the spring. Also, bankers report weakening demand for consumer loans and especially residential mortgages, a modest upturn in delinquency rates in these same segments, and little change in lending standards.

Consumer Spending

Retailers report that sales were generally on or above plan in September, with year-over-year same-store sales gains ranging from 2 to 6 percent. A number of contacts indicate that the general firming in sales in recent months largely reflects a pickup in apparel sales, which had been weak in the first half of the year. Demand has remained strong for household furnishings and equipment, as well as jewelry. All of the retailers contacted indicate that inventories are in good shape, and that selling prices are steady to down moderately compared with a year ago. In looking ahead to the upcoming holiday season, retailers are generally planning for sales to be flat to up modestly over comparable 2002 levels.

Consumer confidence weakened in September, according to two separate surveys. The Conference Board's survey of residents of the Middle Atlantic states (NY, NJ, PA) shows confidence falling to a 6-month low, while Siena College's measure, based on New York State residents, fell to a 5-month low.

Construction and Real Estate

Residential real estate markets showed persistent strength in the third quarter, while commercial markets showed some signs of firming. New York State realtors report that unit sales were lower than a year earlier but that selling prices continued to post double-digit gains from a year ago. Particular strength was reported in the New York City and Albany areas. A large Manhattan real-estate firm and a leading appraisal firm both report brisk co-op and condo sales activity, across all segments of the market, in the third quarter--

particularly in September. They also note that the inventory of apartments on the market has fallen steadily since April and observe some upward pressure on selling prices, particularly for smaller units.

Housing permits in the district rose in August, led by a sharp rebound in the multi-family segment in New York City. More recently, homebuilders in northern New Jersey report continued strong demand in September but one contact expresses concern that recent increases in property taxes and mortgage rates have crimped affordability. An industry contact notes a steep rise in the cost of plywood and OSB (oriented supply board), but indicates that labor and other material costs remain in check.

Office vacancy rates in and around New York City were generally stable in the third quarter. In Manhattan, contacts report some firming: although vacancy rates were little changed, the amount of sublease space on the market reportedly declined and a number of large leases are said to be pending. Suburban markets were mixed but, on balance, stable--vacancy rates increased modestly in Westchester County and Long Island, but edged down in Fairfield County, Connecticut.

Other Business Activity

A major New York City employment agency reports a significant pickup in hiring activity in September, following a summer lull, and describes this strength as more than just seasonal. Much of the hiring is said to be coming from small to medium-sized firms. Separately, a contact in New York City's securities industry reports further improvement in industry conditions, with brisk gains in revenues, profits and compensation, and a recent modest upturn in employment. Manhattan hotels report robust business in August and September, with both occupancy rates and total revenue running ahead of last year's levels. While the business travel segment is still described as sluggish, some pickup is reported in foreign leisure visitors, and more strength in this segment is expected due to the weakening dollar.

The manufacturing sector has shown increased strength in recent weeks, which is apparently beginning to boost employment. Our latest survey of New York State manufacturers, conducted in early October, points to continued improvement and strong optimism about the six-month outlook. Similarly, purchasing managers in both the Buffalo and New York City areas report widespread increases in manufacturing activity in September, and those in Buffalo indicate a significant upturn in employment--the most pronounced in five years. Finally, shipping volume through the Port of New York and New Jersey expanded at a double-digit rate in the third quarter, and the volume of activity is said to be well above expectations.

Financial Developments

Small to medium-sized banks in the Second District report stable demand for commercial credit but decreased demand for consumer loans and especially residential mortgages, for which nearly three-quarters of bankers indicate lower demand. Also, lower overall refinancing activity is indicated by nearly two-thirds of bankers. On the supply side, credit standards are reported to be steady across all loan categories.

Interest rates rose for all loan categories except consumer loans. Most notably, more than half of the bankers surveyed report higher rates for residential mortgages. Average deposit rates were little changed, on balance. Finally, bankers report some increase in delinquency rates on consumer loans and residential mortgages, but little change among commercial

borrowers.

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Third District--Philadelphia

Business conditions in the Third District improved slightly in September. Manufacturers reported increases in orders and shipments for the month. Retail sales of general merchandise in September were up slightly from August and from September a year ago. Auto and light truck sales eased in September from August but were up somewhat on a year-over-year basis. Bank lending has been rising, with advances in business, consumer, and residential mortgage lending. Business at service firms has begun to show some improvement, although the gain has been slight.

The consensus forecast in the Third District business community is for slowly improving conditions. Manufacturers forecast increases in shipments and orders during the next six months. Most of the retailers surveyed in September expect sales in the fourth quarter of this year to exceed sales in the fourth quarter of last year, and some store executives have recently raised their forecasts. Auto dealers anticipate steady sales. Bankers expect continued slow growth in lending. Service companies expect some growth, but in general they anticipate only slight gains in the next two quarters.

Manufacturing

Manufacturers' shipments and orders increased in September compared with August, continuing the upward trend that began in the summer. Although around half of the firms polled in September indicated that their shipments and orders were running at steady rates, nearly a third reported gains. Order backlogs at area plants edged up in September. Backlogs have been moving up slowly for the past several months. Firms in most of the District's major manufacturing industries reported increased demand for their products in September, but producers of transportation equipment and apparel noted some declines in orders.

Looking ahead, manufacturers in the region expect further improvement. More than two-thirds of the firms contacted for this report expect increases in shipments and orders, and virtually none expect decreases during the next six months. Around one-third of the manufacturers surveyed in September have recently increased planned production for the fourth quarter compared with plans made earlier this year, and only one in ten have trimmed production schedules for the quarter. More area manufacturers plan to increase rather than reduce capital expenditures in the next six months, but not by a large margin.

Retail

Third District retailers contacted for this report indicated that sales in September were slightly above August levels and a bit above the sales level posted in September of last year. Merchants generally indicated that some easing in sales growth was expected in September after income tax rebates and back to school demand pushed up sales in August. There was a pickup in sales of fall apparel and accessories during September, and sales of furniture and home furnishings remained strong. With an apparently improving trend of sales, stores have been able to limit discounting of fall merchandise compared with the extensive markdowns they made to clear out summer goods.

Third District retailers expect sales in the final quarter of this year to exceed the same period a year ago, and some have recently raised their forecasts. Merchants believe consumer

confidence is building slowly and that shoppers will begin to make purchases that they have been postponing. Nevertheless, in a continuing effort to contain costs, many stores are limiting their inventories and implementing measures to reduce order cycle times.

Auto dealers reported an easing in the sales rate in September after very strong August sales. Compared with a year ago sales in September were up slightly. In general, dealers indicated that inventories were at appropriate levels, but some dealers said they still had 2003 models that they were trying to clear out. Dealers expect sales to run at a roughly steady rate during the rest of the year.

Finance

Outstanding loan volume at Third District banks was on the rise in September. Banks reported modest increases in commercial and industrial loans, with slightly higher loan demand from firms in a fairly wide range of industries. Consumer credit also expanded, for both personal loans of various kinds and credit card lending. Besides the increase in personal loans booked during September, some banks noted that they approved personal lines of credit during the month that have not yet been fully utilized. Banks generally reported continuing increases in overall residential real estate lending, but most of those contacted for this report said refinancing activity has slowed.

Bankers in the District expect continued slow growth in lending through the rest of the year. Some said growth in business and personal loans could accelerate somewhat next year if the pace of business activity in the region quickens. Most of the lending officers surveyed in September expect lending for home purchase mortgages to continue to increase in tandem with any increase in home sales in the region, but they anticipate further declines in refinancings. In general, bankers in the District indicated that credit quality for both personal and business loans has been steady, but some noted that debt service to income ratios have risen for both individual and business borrowers.

Stock brokers and investment management companies indicated that cash flows into most types of funds and financial instruments were steady in September. Executives of the nondepository financial firms contacted for this report said investors are still concerned about fundamental economic conditions. They do not expect investment activity to pick up significantly until employment begins to move up consistently.

Services

Service firms contacted in September generally reported steady or slightly growing activity. Demand for general business services has been edging up and the region's health services sector continues to advance, but telecommunications activity remains nearly flat. Several local service sector firms indicated they see the beginnings of rising demand, although most of those surveyed expect growth in the next two quarters to be slow. Some noted that their corporate customers are still emphasizing cost-cutting, and are limiting their use of outside services until overall business conditions show more significant improvement.

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Fourth District--Cleveland

Business conditions in the Fourth District remained mixed in August and September. Residential construction activity and mortgage-related lending remained at high levels, although some contacts noted a slight deceleration in September. Modest improvements

were noted in nondurable manufacturing, some retail categories, trucking and shipping, and commercial lending. Conditions remained steady or weak in durable goods manufacturing, apparel and auto retailing, and commercial construction.

Input prices remained the same or rose during these months. Manufacturers in particular noted sharp increases in energy prices, while builders noted an increase in some of their materials costs. Trucking companies reported that fuel costs had leveled off.

At worst, contacts expect annual economic activity to be the same as in 2002, but many contacts expect higher levels of sales and production.

Manufacturing

Manufacturing contacts continued to report mixed conditions in August and September. Durable goods producers reported steady conditions compared with one month ago, but they often reported lower sales and production compared with a year ago. On the other hand, nondurable manufacturers consistently reported at least modest increases in both production and sales. For all contacts, inventory levels were flat or lower compared with a year ago. Few contacts in nondurable manufacturing reported excess idle capacity, but durable manufacturers reported excess capacity ranging from 5 to 40 percent. About half of the contacts stated that overtime was used, and most experienced no change in their employment levels. Input prices were higher than last year but were flat relative to July. Increasing prices for utilities was of particular concern. A few contacts have increased the prices of goods with some success, but most producers left their prices unchanged. Most contacts anticipate flat or increasing sales and production through the rest of the year.

Auto production increased overall throughout the District in September (up 6.6 percent in the last month and up 2 percent since a year ago), though a few producers experienced declines. This increased production appeared to run counter to national trends. Most facilities in the District used overtime hours more than usual during the survey period.

Steel production and sales were mixed during August and September. Firms in different market sectors continued to experience different trends, with those supplying the defense industry maintaining high levels of demand while demand from aerospace, power generation, and non-residential construction continues to be weak. Idle capacity is in the range of 10 to 40 percent. Inventory levels are low, and most contacts were satisfied with current levels. Due to increases in some input prices including natural gas, electricity, and ferrous metals, steel prices have climbed as well for some contacts. New orders are coming at a very slow rate and are flat for most contacts. Contacts generally anticipate flat to moderately rising production and sales through the rest of 2003.

Retail Sales

Retail sales were flat to slightly higher than last year during August and September, in some cases, better than expected. Apparel sales were again soft, while food and drink, personal care items, furniture, and home appliances sold well. Inventories continue to be tightly managed and are low compared with historical standards. As usual, discount stores fared better than other retail chains. Vendor and retail prices continued to be flat in general, although sharp increases in meat prices hurt some restaurants. As retailers prepare for seasonal hiring, staffing is not expected to be a problem this quarter; labor turnover remains low, and prospective workers are easily found. Sales for the rest of the year are expected to be steady and flat to slightly up from last year.

Auto dealers indicated that September sales were poor, much lower than August and September 2002. Used vehicles continued to sell well, as did new trucks. Dealer inventories have risen and become somewhat "bloated" because of soft sales and increased shipments from manufacturers attempting to reduce their own inventories as the model-year ends.

Construction

Sales were strong in residential construction in August and September. In Ohio, August home sales were up 18 percent over last year. Some of the increase was attributable to customers purchasing in anticipation of rising interest rates. Since rates have since flattened, there were some indications activity may have slowed slightly in September. Overall, contacts expect sales will be strong for the rest of the year and at least as high as fourth quarter 2002. Profit margins were somewhat strained by rising material costs. Plywood and lumber prices have been rising sharply. Contacts indicated that events outside the District, particularly rebuilding efforts after Hurricane Isabel and recent military purchases of plywood for operations in Iraq, were partly responsible for some of the price increases.

Commercial construction was slow during this period, and increases noted in the last report appear to have been transitory. Conditions have not changed much from the early summer. However, most contacts continue to be optimistic about future contracts, as discussions about projects have picked up and appear to be less tentative than in the past. Several contacts noted new project possibilities in manufacturing areas. Profit margins continue to be low because of fierce competition for the available construction opportunities. A few contacts noted slight increases in materials costs.

Trucking and Shipping

Activity in trucking and shipping in August and September showed modest improvements compared with the same period in 2002. Most contacts believed that the uptick in activity represented more than just seasonal factors. Retail customers increased their demand for trucking and shipping services, while demand from manufacturers continued its flat-to-negative trend of the last several years. Most firms have an optimistic outlook for the remainder of this year and into 2003. Fuel input costs rose during the summer driving season, but have since leveled off.

Banking

Conditions were again mixed for commercial and consumer loans. Contacts reported stable-to-increased demand for commercial loans (which are at low levels), while consumer loan activity was steady to declining from the high levels seen earlier in the year. This drop in demand for consumer loans was driven by the drop in refinancing activity, which was caused by the recent rise in mortgage rates. Reports regarding the rate of loan delinquencies for mortgage, installment, and business loans were mixed.

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Fifth District--Richmond

Despite disruptions from Hurricane Isabel, economic growth advanced at a modest pace in the Fifth District in late August and September as ongoing moderate expansion in the services sector was partially offset by continued contraction in the manufacturing sector. Hurricane Isabel disrupted retail and services businesses in several District states in mid-to-late September, although relatively few establishments outside of coastal regions

experienced significant property damage. Along the coast, tourists were on the move in advance of Isabel's arrival on September 18, but decreases in tourism activity in those areas were partly offset by increases at inland locations as tourists relocated and out-of-region utility crews arrived for repair and clean-up efforts. With the exception of hurricane-related purchases, such as generators, plywood, and batteries, retail sales were generally flat in September. District manufacturing activity weakened since our last report as shipments declined again and employment at factories contracted. Adding to the weaker tone, a small number of manufacturers reported prolonged shutdowns and/or substantial damage resulting from the hurricane. In the housing sector, growth in home sales slowed, but realtors said that activity remained at a high level. In agriculture and fishing, heavy rain and high winds from the hurricane damaged fishing boats and crops and disrupted the feeding of livestock in areas lying in the storm's path.

Retail

Fifth District retailers reported generally steady sales over the last six weeks. Only a few contacts, however, reported increased hiring. Many retailers in North Carolina, Virginia, and Washington, D.C., closed on September 18 and for several days thereafter because of power outages in the aftermath of the hurricane. Hardware stores in those areas saw increased sales of chain saws and generators after the storm, and grocers did brisk business as a result of lengthy power outages. Most retailers said that sales lost because of the storm were quickly made up and that the hurricane caused just "a blip" in their monthly sales figures.

Services

Services businesses reported moderately higher revenues in the weeks since our last report. Executive search firms in the Washington, D.C., area said demand for their services picked up, and a contact at a Baltimore financial services firm said customer demand was strong enough to warrant increased hiring. Effects of Hurricane Isabel were specific to particular services businesses—electric utilities brought in thousands of workers, tree removal companies in central Virginia gained "phenomenal" business, and insurance companies brought in disaster-relief specialists to assess and settle claims. Restaurants were busier than usual as households waited days for electric power to be restored. Also, air traffic and trucking were disrupted by the storm. In the public sector, federal government offices closed for two days because of the hurricane.

Manufacturing

The District's manufacturing sector contracted in September: shipments, new orders, capacity utilization and employment fell. Contacts in the chemicals, lumber, and textiles and apparel industries noted particularly sharp declines in shipments. A machinery manufacturer said that they were already half way through September and hadn't put enough [sales] on the book to make the payroll much less pay other expenses. Several textile and apparel manufacturers told us that foreign manufacturers continued to gain market share to the detriment of U.S. textile and apparel companies. Manufacturers overall noted a substantial decline in hiring and modest wage growth.

Hurricane Isabel caused relatively few disruptions to manufacturing operations, though adverse impacts were noted by some District lumber mills. A contact at a North Carolina lumber mill told us that their plant shut down for several days and noted that there would be much lower volumes of standing timber available for sale for years to come. On a brighter note, a counterpart at a Virginia lumber mill said that while his company's orders had dropped because of the storm he felt that there would be a surge in business after roads were

cleared and power was restored to the area.

Finance

District loan officers said that growth in overall lending activity declined as residential mortgage refinancings slowed in the weeks since our last report. Residential mortgage refinancing dropped substantially in August and early September as mortgage interest rates climbed well above 6 percent. In addition, new home loan originations grew more slowly as the pace of house sales cooled. Commercial lending, however, showed signs of picking up in some areas. A Richmond, Va., banker, for example, said that businesses were beginning to expand their capital spending and borrowing funds again. In her words, businesses had "put off spending long enough." Commercial lenders in other areas, however, suggested that most business decision makers continued to keep expansion plans on hold, "waiting to see what will happen to the economy."

Real Estate

Although growth in home sales slowed somewhat in several areas of the Fifth District residential realtors continued to report generally strong housing markets. A realtor in Odenton, Md., reported slower growth, but added that the market had been "so insane" in recent months that the slowdown was welcomed. A contact in Washington, D.C., said that the market there was still robust, as was the neighboring market in Prince George's County, Md., where increased gentrification was driving house prices higher. A North Carolina contact reported that although the Greensboro real estate market was still doing relatively well, customer interest had ebbed somewhat in recent weeks. Home prices were reported to be rising moderately in most areas of the District.

District realtors reported no major changes in commercial real estate conditions in recent weeks. While there continued to be pockets of improvement, contacts said that the lack of job growth had made many companies cautious and hesitant to commit to new projects. By sector, the leasing of retail space remained steady in most markets, while activity continued to be flat in office and industrial space. Commercial rents dipped and vacancies held firm. Commercial construction activity continued to be "very slow." Looking ahead, realtors expected stronger growth in the fourth quarter--a contact in Columbia, S.C., said he was "cautiously optimistic" regarding activity for the remainder of the year.

Tourism

Tourist activity remained mixed in September. Hurricane Isabel battered coastal areas along the Outer Banks of North Carolina and much of Virginia in mid-September causing damage to some coastal hotels and widespread cancellations of hotel reservations. However, one hotel's loss was another's gain in some cases as tourists relocated out of the storm's path. A contact at Emerald Isle, N.C., on the southern Outer Banks told us that bookings there had picked up as the storm passed further to the north. A hotelier at Virginia Beach said that Isabel caused severe damage to some oceanfront resorts resulting in increased business in the better-protected inlet area. Mountainous areas in Virginia and West Virginia also fared well as thousands of people headed west after evacuating from the Virginia Beach and Williamsburg, Va., areas.

Temporary Employment

District temporary employment agencies reported increased demand for workers since our last report. Contacts in Hagerstown, Md., and Northern Virginia reported a definite upturn in business activity. Likewise, a Raleigh, N.C., agent reported an increase in corporate

confidence and a better response to his agency's marketing efforts. Administrative assistants and customer service representatives were among the occupations in highest demand. There was also a large influx of temporary workers involved in repair and cleanup in the aftermath of the hurricane.

Agriculture and Fishing

Hurricane Isabel brought heavy rain, strong winds, and flooding in low-lying areas in the storm's path. With the exceptions of South Carolina and Washington, D.C., farmers in most areas of the District incurred varying degrees of storm-related crop damage. In Maryland, corn, fruit trees, and soybeans were damaged from flooding. Corn, tobacco, tomatoes, and strawberries were damaged by both water and high winds in northeast North Carolina and in Virginia. Sustained power outages and lack of water were a concern in North Carolina as farmers tried to dry corn, cure tobacco, and provide feed and water to livestock. Scattered losses of cattle were reported and thousands of chickens were lost because of wind damage to poultry houses and a lack of power. District orchards were also hard hit--agricultural officials estimate that a sizeable proportion of the apple crop in Virginia was destroyed. The hurricane-related wind and storm surge also damaged fishing boats, nets, and other equipment along coastal areas. Contacts in the fishing industry expect some long-term damage to the crab and fish populations as a result of the storm.

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Sixth District--Atlanta

Reports from Sixth District contacts suggested that business activity continued to expand during September. District residential housing markets continued to post steady growth, whereas commercial real estate markets displayed small improvements. Factory activity showed further signs of stabilizing and transportation contacts reported increased freight volumes in September. The pace of retail and auto sales moderated somewhat, although several reports noted that sales for the month exceeded expectations. Commentaries on the District's tourism and hospitality sector were mixed: reports from South Florida were mostly upbeat, but others were more subdued. Responses from the banking industry noted steady deposit flows and a further drop-off in mortgage refinancing. Overall, employers appeared to be reluctant to add to payrolls, and wage increases were modest in most sectors. Environmental conditions were favorable for the District farmers' in September.

Consumer Spending

Retail contacts indicated that sales growth moderated somewhat in September from the strong pace set in August, but activity still managed to exceed retailer's expectations in many cases. Contacts noted that apparel sales improved in September and electronics and home-related products continued to sell well. Overall, inventories were described as balanced. Reports noted that the retail outlook for the fourth quarter remained positive, and some regional consumer confidence measures showed a modest improvement in September from August. Meanwhile, District auto dealers reported weaker sales in the first part of September than in August.

Real Estate

District single-family housing markets were generally stable in September. Homebuilders continued to report that new home construction and sales were flat to up slightly during September. Reports from District real estate agents mirrored those of builders. Most contacts

appeared more optimistic regarding single-family housing through year-end than they had in the last report. Higher mortgage interest rates have apparently not curtailed activity as much as had been initially expected. The region's commercial real estate markets continued to show only small, isolated improvements, and contacts reported that vacant space continued to fill slowly. Commercial construction remained at low levels.

Manufacturing

Manufacturing production in various industries picked up or was stable in September, although there were some reports of layoffs. Many firms were still reportedly planning to limit the extent of new capital spending and hiring in the near term. However, factory contacts in Tennessee saw a pickup in orders for machine tools and equipment as their customers' sort to improve productivity. Florida contacts noted stabilization in manufacturing activity, but saw little evidence of a rebound. An Alabama steel producer indicated that business was improving, but capacity utilization rates remained low. A manufacturer in Georgia reported that the weaker dollar was helping exports, but a textile producer noted smaller sized orders. Further layoffs were announced in the District's chemical industry.

Tourism and Business Travel

Reports from the District's hospitality and tourism sector were mixed. Although early fall is traditionally a slow period for tourism in south Florida, visitor traffic was better than expected and restaurant business was reported to be quite brisk. In contrast, the international market remained weak and the sluggish demand for lodging in central Florida reportedly forced the closing of at least two hotels there. As before, hotels throughout the District catering to business travelers reported low-occupancy levels. Convention attendance in Atlanta, Nashville, New Orleans, and Miami continued to suffer from restrained business spending.

Financial

Most reports indicated a steady flow of deposits into banks and that the rate of loan delinquencies remained manageable. Reports also noted a drop in demand for mortgage refinancing because of higher interest rates. Some loan officers reported that they were receiving more business loan requests for projects aimed at reducing costs or increasing productivity. However, overall business loan and venture capital investment activity remained low.

Transportation

Reduced capacity combined with higher than normal seasonal demand for shipping services led to improved conditions for the District's transportation sector. Trucking firms reported increased freight volumes and stable rates in September. In Georgia, an increase in shipments of pulp and paper for the packaging industry was noted.

Employment and Prices

Contacts reported that labor markets were stable overall in September, although the demand for additional permanent staff was rising in only a few sectors and was notably absent in manufacturing. Some factory contacts, however, reported that they had increased the amount of overtime as production turned up. Part-time and temporary workers also continued to be in demand. Some businesses noted that they were reluctant to hire permanent employees because of the associated benefit costs.

Prices for most goods and services remained stable in September. However, the rising cost of healthcare and pension benefits were holding down salary and wage increases according to some contacts. Local lumber prices were reportedly the highest in several years because of wet weather, fires in the West, and recent high demand for plywood.

Agriculture

Rains and cooler weather produced favorable conditions for most of the District's agriculture sector in September. Some commodity prices moved higher in September. Local poultry growers were encouraged by the new U.S.-Russia market access agreement that should lead to additional poultry exports to Russia.

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Seventh District--Chicago

Seventh District economic activity continued to show signs of modest improvement in late August and September. However, many businesses wanted to see a longer period of firming in demand before committing to hiring, expanding capacity, or inventory building.

Consumer spending was stronger than earlier in the year, but sales results were mixed by retail segment. Business attitudes appeared to improve further, yet spending and hiring plans remained cautious. Construction and real estate activities continued to be characterized by strong residential markets and weak commercial markets. Manufacturing activity continued to expand. Bank lending remained relatively soft. There were only small changes in the price and cost environments. Early harvest results suggest that corn output will be at least average, but that soybean output will be well below average.

Consumer spending

Consumer spending in August and September still appeared to be stronger than earlier in the year, although reports were mixed. Retailers said that sales generally exceeded expectations, as consumers continued to purchase deeply discounted merchandise. Inventories were leaner than expected as a result. Still, most merchants were not confident enough about sales prospects to boost inventories in the near term. While apparel sales generally remained sluggish, there was a sharp rise in sales of baseball-related apparel in the Chicago area. By contrast, a contact in casual dining indicated that food service sales remained soft. District auto dealers said that light vehicle sales fell from August to September, and seemed softer than the national trend in both months. With weaker sales, dealers continued to curb light vehicle orders and draw down inventories. Many dealers also noted that service sales slowed in September after picking up toward the end of summer.

Business spending

Business attitudes continued to improve, although spending and hiring plans remained cautious. Several contacts noted that businesses were seeing better earnings, but much of the improvement resulted from cost containment rather than revenue gains. One contact suggested that firms want to see several periods of stronger revenue growth "in their rearview mirrors" before they commit to capacity expansion and permanent hiring. Most capital equipment spending continued to go toward the maintenance, repair, or replacement of existing stock. On the hiring side, contacts with temporary help firms reported a seasonal pickup in worker orders; for one national firm, this was the first seasonal boost in three years. The jump in worker assignments was particularly evident in the light industrial and

office/clerical categories. Several contacts suggested that the bulk of new temporary hiring was done by small employers rather than large. Still, most businesses remained very reluctant to add permanent full-time help, although there were a few reports of increasing worker hours.

Construction and Real Estate

As has been true for some time now, District real estate markets were strong on the residential side and weak on the commercial side. New home sales were again robust, with one contact's comment that "business is great" generally summing up builders' sentiment. Sales of first-time-buyer and trade-up homes continued to drive the market, although there were a few reports of a pickup in the luxury segment. Traffic through builders' annual "Fall Parade of Homes" was very high in most areas, leaving builders more optimistic that new home sales will remain strong well into the fall. Existing home sales were also very strong in most parts of the District. Commercial activities appeared to slow somewhat. Some contacts said that the number of office property tours and prospects fell recently, after picking up through the summer. On balance, office vacancy rates were flat in the third quarter, and rents remained under downward pressure. Light industrial vacancies remained elevated and there were some concerns that big-box retail space was overdeveloped.

Manufacturing

Manufacturing activity continued to expand in late August and September. Nationally, light vehicle demand exceeded some automakers' expectations over the summer months, which helped bring inventories down to desired levels sooner than anticipated. Despite stronger sales, automakers did not report any changes to production schedules. A leading producer of home appliances said that shipments picked up in recent months as distributors replenished depleted inventories. Some heavy equipment industries were seeing a "pretty good recovery," according to one contact, and even though inventories were rising, the inventory-to-sales ratio continued to decline. Medium-duty truck dealers were also said to be rebuilding inventories, helping to boost shipments in September. Some producers of machine tools noted increases in price quotes, new orders, and shipments. Moreover, one contact suggested that the increase in demand for machine tools was coming from customers across a wider range of industries. Despite little change in demand, domestic steel production improved modestly as imports continued to fall.

Banking and Finance

Overall lending activity remained relatively soft, although bankers reported slight increases in both household and business loan demand. Residential refinancing activity increased somewhat from its summer lull, but remained well below the peak reached in June. One banker said that margins on mortgage loans were being squeezed as firms that had built up "a huge mortgage lending infrastructure" competed for a smaller pool of potential borrowers. Some contacts also noted modest increases in home equity and credit card volumes. Household loan quality was reported to be largely unchanged. Business loan demand remained very soft on balance, though there were scattered reports of improvement in some segments. A few bankers noted increased lending to small businesses, and one saw a pickup in middle-market lending. For the most part though, large corporate borrowers remained on the sidelines. Business credit quality was said to be improving, and there were no changes reported for standards and terms.

Prices and Employment Costs

On balance, there was little change in the pricing and cost environments. Manufacturers of

some products said that a weaker dollar enabled them to raise output prices from very low levels. However, producers of other goods attempted to push through price increases with limited success. Many retailers indicated that the long trend toward steeper discounts may be coming to an end, with one adding that "prices simply can't go much lower." Business contacts continued to report that higher energy and insurance costs were squeezing profits. To keep the rise in employment costs down, more employers were planning to shift higher health insurance premiums to their workers. In addition, several contacts reported that firms continued to limit and/or delay merit pay increases.

Agriculture

Crop conditions generally stabilized during September after deteriorating during August due to heat and lack of precipitation. In eastern portions of the District, however, harvesting was running behind average since fields were too wet and crops were maturing late. Corn yields across the District were coming in close to normal or above, but soybean yields were mostly below normal. Widespread spraying for aphids kept soybean yields from falling more, but boosted input costs. On balance, expectations for farm income have been reduced, potentially stressing farmers' cash flows and thus generating concerns about loan repayments. As a result, slower capital expenditures in farming are expected for the District, except for repairs. Nonetheless, strong competition between farmers and nonfarm investors persisted, driving farmland values and rental rates higher. With less development in some areas, there are signs that the role of tax-deferred exchanges in pushing up land values has begun to slow.

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Eighth District--St. Louis

Contacts in the Eighth District indicate that the region's economy is showing modest signs of improvement. Favorable reports in the manufacturing and services industries suggest that economic activity increased since the last survey, although announcements of plant closings, downsizing, and layoffs remain. Retail sales increased in September compared with 2002 levels, but auto sales declined over the same period. Home sales rose in most of the District in August, while commercial real estate markets remained weak. Loan demand increased over the past three months at a sample of small and mid-sized banks in the District.

Manufacturing and Other Business Activity

The Eighth District's manufacturing sector appears to be expanding. Reports of plant openings, product-line expansions, increased spending on research and marketing, and new jobs created continued to appear since the last survey. Manufacturers in the automobile and automotive parts, motor, fuel processing, hand tools, sealing products, photography, food, clothing, medical devices, health, and beauty industries were among those who announced such moves. In the services sector, firms in the banking, communications, entertainment, and hotel industries announced improvement in business activity and plans for expansion. Despite the positive outlook, there have also been several announcements of plant closings, downsizing, and layoffs. Affected industries include utilities, electrical transformers, packaging, shipping and transportation, chemicals, hardware, plumbing, brass, steel, fabrics, furniture, food, and airlines. A troubled auto plant has received state aid to limit local job cuts. Firms in the food, health care, and beauty industries recently were granted tax freezes for several years in return for job creation in the District.

General retail sales in the District improved slightly in September compared with the same month last year, with several retailers reporting increased in-store traffic. Strong-selling products included clothing, appliances, discount items, furniture, and back-to-school items. Among the products that were not moving were seasonal merchandise and cookware. Auto dealers report that sales have increased slightly in recent weeks, but they are still below 2002 levels. They attribute this increase to a higher use of rebates, deep discounting, and better finance terms. Contacts report, however, that they will offer fewer incentives on 2004 models. Recent sales of imports, SUVs, trucks, and used cars have increased, while sales of domestic, passenger, and new cars have decreased. Several contacts report that their inventories are higher than desired, particularly for used cars. Both general retailers and car dealers appear optimistic that sales will improve over the rest of the year.

Real Estate and Construction

Sales of single-family homes through August continued to increase in most of the District. August year-to-date sales in northern Kentucky increased by 18.0 percent compared with those in the same month last year. In the Memphis area, year-to-date sales increased by 9.7 percent, with an increase of 6.1 percent between July and August 2003. In the northeast Mississippi area, however, the stock of homes for sale was at historic highs. In August, year-to-date single-family housing permits were up in most of the District's metropolitan areas compared with August of last year. In the greater St. Louis area year-to-date permit levels increased by 1.0 percent. Housing starts were up in southern Indiana and northeast Arkansas. Residential construction was also strong in western Tennessee and northeast Arkansas.

The office and industrial real estate markets are still sluggish in most of the District. Contacts in the St. Louis area anticipate a slight decrease in office and industrial vacancy rates in the third quarter. Commercial construction activity is slowly improving in most of the District. New shopping malls and movie theaters are being built in central Kentucky, and contacts in southern Indiana and the Memphis area report that commercial construction is improving.

Banking and Finance

Total loans outstanding for a sample of small and mid-sized District banks were up 3.5 percent between early July and early September. This increase stemmed mostly from real estate loans and leases, which increased by 4.9 percent. Loans to individuals increased by 1.9 percent, while loans to commercial banks decreased by 1.0 percent. Over the same period, total deposits at these banks were up by 0.7 percent.

Agriculture and Natural Resources

Recent weather has had mixed effects on agriculture. While rains slowed row crop maturity in some areas, damaged some tobacco during the harvest in Kentucky, and pushed back harvesting of hay and cotton, recent drier conditions have aided corn and soybean maturity and provided favorable conditions for quickening the harvest. Current reports indicate that, except for sorghum, the majority of crops lie in the good-to-excellent range. Improved by recent rains, more than 50 percent of pastures and hay also lie in this range.

Corn yields appear good, but harvesting is still behind its average pace. Soybean maturity and harvest lag nearly 50 percent behind average in Illinois and Missouri, while they are at a better-than-average pace in Mississippi. Sorghum maturity and harvest are behind average

by over 70 percent in Illinois. Cotton harvest lags by nearly 50 percent due to previous wet conditions, while hay and rice crops are roughly on schedule. Farmers are now beginning to plant winter wheat. The condition of livestock continues to be good, as are soil moisture levels.

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Ninth District--Minneapolis

Overall Ninth District economic activity increased in late August and September. Residential real estate, manufacturing, agriculture, consumer spending and mining grew. Meanwhile, tourism was mixed, and commercial real estate and energy were down slightly. Labor markets were soft. Wage and price increases were generally moderate; however, significant price increases were noted in natural gas, freight and health insurance, with decreases in gasoline.

Construction and Real Estate

Commercial real estate activity was down. According to a local business magazine, landlords of commercial property in the Minneapolis-St. Paul area have recently offered generous incentives to prospective tenants, such as payment for improvements, free furniture and discounted monthly rent. In addition, contracts awarded for large building projects in Minnesota and the Dakotas were down 3 percent for the three-month period ending in August compared with the same period a year ago.

Home building and residential real estate activity grew. Housing units authorized in the Minneapolis-St. Paul area were up 15 percent in September compared with last year. The number of closed home sales in the Minneapolis-St. Paul area was 25 percent higher in August compared with a year ago, while the median home sale price increased 9 percent. A Montana bank director reported that real estate sales and prices have been up steadily in the Bozeman area, with no immediate signs of a slowdown. Another bank director noted that refinancing activity dropped significantly during early September in southwestern Wisconsin, but signs of recovery were seen by the end of the month.

Consumer Spending and Tourism

Overall retail sales grew modestly. A major Minneapolis-based department store and discount retailer reported same-store sales in August up 5.7 percent compared with a year ago. A representative of a nationwide retailer noted strong back-to-school sales at stores in North Dakota. Storeowners in southwestern Montana reported solid back-to-school sales activity. Two mall managers in North Dakota reported recent sales about at last year's strong levels. In southwestern Wisconsin, recent sales for men's and women's apparel were soft, but jewelry sales were up from a year ago. A representative of a Minnesota-based women's apparel retailer expected September same-store sales to finish flat to up slightly. Some store managers noted that federal tax rebate checks sent to taxpayers with children may have helped strengthen sales. In contrast, high-end stores in two Minneapolis-area malls reported recent sales behind last year's.

Auto sales were slower in September compared with July and August. Showroom traffic was slow in September, and truck orders were down in rural areas, according to an auto dealers association representative in Minnesota.

Tourism activity was mixed. Visits to Glacier National Park were down significantly due to

fires, while August visits to Yellowstone National Park increased compared with July. A bank director reported strong bookings for fall conferences and the ski season at hotels in the Bozeman, Montana, area. Tourism conditions were mixed among attractions in Minnesota, according to a tourism official; summer tourism picked up in August relative to a slow start earlier in the summer. In South Dakota visits to Mount Rushmore increased about 5 percent in August compared with a year ago.

Manufacturing

Manufacturing activity was up slightly. A September survey of purchasing managers by Creighton University (Omaha, Nebraska) indicated overall increased manufacturing activity in the Dakotas and Minnesota. As evidence, a South Dakota video display producer had the busiest fall season in the history of the company. A Minnesota manufacturer of snowmobiles and ATVs plans to build a large research and development site in the district. Advisory Council on Small Business and Labor members reported generally increased manufacturing production and orders. However, a large meat company announced plans to close a processing plant in Minnesota.

Energy and Mining

Activity in the energy sector decreased slightly, and the mining sector increased. September district oil and natural gas exploration levels decreased slightly from mid-August. However, most major district operating iron ore mines are producing at near capacity. Metal prices firmed up, and several Montana mines plan to renew or upgrade operations. "The future is looking better every day," commented a Montana mining official.

Agriculture

Agricultural economic conditions improved in September from August. The U.S. Department of Agriculture reported higher prices, as Wisconsin farmers and ranchers were expected to receive 4 percent more for milk and 6 percent more for beef cattle in September compared with August. The district experienced a large harvest of small grains, and winter wheat plantings have started. The USDA reported big increases in wheat and oat yields, and production in 2003 compared with 2002 for most district states. For example, North Dakota's wheat production increased 46 percent from 2002 to 317 million bushels. Due to drought, which was eased somewhat by September rains, row crop harvests started early this year. The USDA reported mixed conditions for Minnesota's row crops, as 30 percent of corn and 24 percent of soybeans were rated good, while 29 percent and 33 percent, respectively, were rated poor or very poor.

Employment, Wages and Prices

Labor markets were soft with some layoffs reported. In South Dakota a computer manufacturer will lay off 650 workers by the end of the year. In Minnesota, a computer-storage product manufacturer recently cut about 150 jobs companywide, while a telecommunications equipment and services company recently laid off 100 employees. Also in Minnesota, a software company just announced plans to cut 80 jobs, and an office product manufacturer laid off 55 workers.

In contrast, a mine opening in Montana will likely create 400 jobs by year end. A temporary staffing agency survey showed that 32 percent of employers in Minneapolis-St. Paul expect to hire more workers during the fourth quarter and 13 percent expect to reduce payrolls. Last year 23 percent expected to increase payrolls; 11 percent planned reductions. Initial claims for unemployment insurance in Minnesota decreased 8 percent in August compared with a

year ago.

Increases in wages and salaries were moderate. For example, a teachers union in Minnesota recently agreed to an average salary increase of 2.5 percent the first year and 1.2 percent the second year of a two-year contract.

Price increases were generally moderate, with significant increases noted in health insurance, natural gas and freight, while gasoline prices were down. Several members of the Advisory Council on Small Business and Labor mentioned that overall price increases were minimal, while health insurance rates increased well over 10 percent in 2003, compared with last year. Natural gas prices were recently 15 percent above last year's levels; double-digit increases on fuel bills are expected this winter. An owner of a trucking company in Montana reported that recent freight rates were notably higher than a year ago. Gasoline prices in Minnesota decreased 21 cents from mid-September to the end of the month.

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Tenth District--Kansas City

The Tenth District economy continued to expand in late August and September. Manufacturing strengthened further, and more firms than in previous surveys reported increased hiring and investment. Retail sales excluding autos rose slightly, housing activity remained strong, and the farm and energy sectors improved. On the other hand, auto sales fell after rising earlier in the summer. Commercial real estate markets also remained weak, although they showed some signs of stabilizing. Wage and price increases were generally modest, but some materials prices rose sharply.

Consumer Spending

Excluding autos, retail sales in the district continued to edge higher in late August and September and were at or above year-ago levels at most stores. Among product categories, sales of shoes, men's and children's clothing, and most home items were strong, while sales of women's apparel and electronics were somewhat sluggish. Nearly all retailers expect sales to continue to increase slightly, although several managers reported they would not be confident about fourth quarter sales until consumer sentiment improved somewhat. Most stores were satisfied with inventory levels and plan typical seasonal increases to stocks in coming months. In contrast to sales at retail stores, sales of motor vehicles in the district fell somewhat in late August and September after increasing earlier in the summer and were below year-ago levels in most states. Auto sales in Colorado were particularly weak, although dealers there reported a slight pick-up in buyer traffic near the end of September. Most dealers expect new car sales to improve in October. Despite slower auto sales since the previous survey, most dealers reported that inventories of unsold cars remained manageable, due to cautious inventory building in recent months. Several dealers also reported that used car prices have firmed recently, as fewer leased cars have been coming back on the market. Reports on late summer tourism activity at mountain resorts in the district were generally positive, and convention business in Denver was strong.

Manufacturing

District manufacturing activity increased considerably in late August and September, and managers remain optimistic about future output. Plants generally reported higher levels of

capacity utilization than in the previous survey, and the volume of new orders continued to rise. In addition, several firms reported further increases in hours and a modest expansion of employment. Moreover, capital spending rose above year-ago levels, as several firms added new production space and increased their purchases of machinery and IT equipment. On the negative side, contacts in the aircraft manufacturing industry reported that their shipments and orders continued to slide. Several other contacts reported difficulties obtaining steel plate and tubing. Looking ahead, most manufacturers expect continued expansion of production and orders for the remainder of the year, along with modest increases in employment. In line with these expectations for stronger factory activity, firms also anticipate some building of inventories of raw materials in coming months.

Real Estate and Construction

Residential real estate activity in the district remained strong in late August and September, and commercial real estate markets showed signs of bottoming out. Single-family housing starts maintained a rapid pace in most district cities, although some builders reported a slight easing in activity. Starts of entry-level homes continued to be particularly strong. Most builders expect single-family construction to stay solid for the remainder of the year, provided mortgage rates remain low. Several builders reported difficulty obtaining plywood, but other building materials remained generally available. Home sales were steady in late August and September and above year-ago levels throughout the district. Most realtors expect sales to remain flat for the rest of the year and anticipate only modest increases in home prices. Mortgage lenders reported a sharp drop in refinancing activity. Inquiries about refinancing picked up slightly at the end of September, but lenders generally expect refinancings to continue to slow. Demand for home purchase loans is expected to hold steady. Most commercial real estate markets in the district showed some signs of firming in late August and September after weakening earlier in the summer. Sales of office space increased slightly in some cities, while absorption and vacancy rates were largely unchanged. However, realtors do not expect much improvement in office markets for the foreseeable future, as most markets have at least some excess supply.

Banking

Bankers report that both loans and deposits increased slightly since the last survey, leaving loan-deposit ratios largely unchanged. Demand edged up for residential construction loans, home equity loans, and consumer loans. Demand for other loan categories was little changed, with increased demand for home purchase mortgages helping offset the slowing in refinancing activity. On the deposit side, gains were widespread across categories. All respondent banks held their prime lending rates steady, and most banks also left their consumer lending rates unchanged. No changes in lending standards were reported.

Energy

District energy activity continued to expand moderately in late August and September, as energy prices remained relatively high. Although natural gas prices fell slightly in September, they were still 50 percent higher than a year ago and are expected to remain elevated in coming months. The count of active oil and gas drilling rigs in the region continued to edge higher in September and was well above year-ago levels. The increase in activity led to greater demand for skilled rig workers, and energy contacts generally expect drilling activity to remain solid through the winter.

Agriculture

Agricultural activity in the district improved in late August and September, boosting

prospects for farm income this year. Cattle profits made a strong rebound after prices reached an all-time high in early September, and yields on the district's corn harvest were better than a year ago. Also, recent moisture has provided excellent planting and growing conditions for the winter wheat crop in many areas. Farmland values throughout the district remain strong, and bankers report higher repayment rates and lower renewals and extensions in their farm loan portfolios. On the negative side, early yields on the district's soybean crop have been below average due to the effects of this summer's drought, and financial concerns persist for farmers located in areas of prolonged drought.

Wages and Prices

Wage and price increases were generally modest in late August and September, although some materials prices rose sharply. Labor markets were still quite slack around the district. However, the rate of layoff announcements slowed to a three-year low, and more businesses than in previous surveys said they were increasing their hiring plans. Most firms were offering only cost-of-living increases in wages, while benefit costs continued to rise rapidly. Some retailers reported discounting prices to clear out back-to-school merchandise. Otherwise, retail prices were unchanged and are expected to be flat to slightly higher in coming months. Manufacturers reported some firming in finished goods prices, but they continued to lack the ability to fully pass input cost increases through to customers. Among manufacturing and construction materials, prices for steel, petroleum-based products, and plywood rose considerably. Manufacturers expect some materials prices to continue to rise and anticipate only modest increases in their pricing power.

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Eleventh District--Dallas

Overall Eleventh District economic activity showed signs of slowly improving in September and early October. While reports were uneven in many sectors, there continues to be cautious optimism that the recovery is strengthening. Still, most companies indicated a reluctance to expand their payrolls without the certainty of a permanent pick-up in demand.

Manufacturing activity was improved, with some industries reporting increased sales and optimism. Signs of strengthening demand were also appearing in the service sector, although reports are mixed. Contacts say that retail sales are slowly and erratically improving. There was little change in the energy industry, financial services, or construction and real estate markets. Overall agricultural conditions remain in good shape despite some weather-related crop damage.

Prices

Overall price pressures were mixed. Overcapacity and weak demand has led to falling prices for paper and boxes, which are now at a 20-year low. Most energy prices were lower, but remain at fairly high levels. Crude oil prices fell steadily in September from \$32 to \$27 per barrel, adding back a dollar or so in late September after OPEC surprised the world with a cut in production. The production cut was equal to Iraq's current production, and many saw OPEC's action as making room for Iraq's return to OPEC. Crude inventories were about 10 percent below normal through much of the period, and held steady in the last couple of weeks despite a decline in refinery demand due to seasonal maintenance.

The blackout in the northeast knocked out six U.S. refineries or about 3 percent of U.S.

production and caused a brief jump in wholesale gasoline prices. The loss of production came at a critical moment, with gasoline inventories about 6 percent below year-earlier levels and Labor Day looming as the biggest driving day of the year. The spot price rose from \$.95 to \$1.12, but has since fallen back to \$.90 or below. Pump prices have fallen back as well. Heating oil prices have fallen steadily throughout the period, as inventories of distillates have returned to healthy, year-ago levels.

Natural gas prices softened in recent weeks from \$5 per thousand cubic feet to \$4.50, as larger than normal increases in inventory kept the industry on track to refill storage to normal levels by the start of the heating season on November 1. Consumption of natural gas continued to decline, and contacts believe natural gas is being diverted to storage. Most observers continue to see gas production capacity shrinking one to three percent this year. Petrochemical prices mostly fluctuated with feedstock costs. Plastic product prices were mixed, with polyethylene and polypropylene up because of increased demand, and polystyrene down due to weaker demand.

Some prices are higher. The high and rising cost of health insurance was mentioned by many industries, and was noted as one of many deterrents to hiring. Prices are higher for some food products despite steep competition because higher input costs are being passed along to consumers. Some manufacturers indicated concerns about the high cost of utilities. Steel producers say that selling prices are beginning to rise despite stiff competition.

Manufacturing

Manufacturing activity was mixed but optimism continued to improve for some firms. Sales have picked up for most construction-related products, including lumber, stone, brick and fabricated metals. Demand is slower, however, for primary metals and paper products. Demand for food products is unchanged and below the level of a year ago. Contacts attribute the weaker than normal demand to declining orders from restaurants. One contact explained that upscale restaurants were scaling back last year and now all are ordering less.

Many high-tech manufacturers reported that production, orders and sales have continued to grow at the good pace set in the second quarter. Demand was reported to be strongest from the Asian and U.S. markets. Inventories were reported to be very lean, as desired. Most respondents expect growth to continue at a good pace over the next six months with one respondent saying that for the first time in a long time his outlook is for "reasonable, sustainable growth."

Refiners' margins spiked along with wholesale prices for gasoline, but margins have fallen back along with price to some of the lowest levels of the year. The lower margins should lead refiners to schedule routine maintenance over the next few weeks, pulling about 3 percent of U.S. production off line at any given time.

Petrochemical producers reported little change in basic petrochemicals, as demand was slightly weaker, overcapacity persisted, and profits were weak. Basic chemical producers report losing export markets due to higher costs associated with high natural gas prices, making it difficult to judge domestic demand.

Services

Activity in the service sector continues to show signs of improvement but remains uneven. Demand gains for temporary staffing have been inconsistent, but contacts say the outlook is more optimistic and feel that intentions to hire are improving.

Transportation firms reported mixed activity. Airlines reported higher load factors but lower profits. Trucking firms reported slower activity. The rail industry reported a marked increase in shipments of grain (exports)--the result of good crop yields in the U.S. and poor harvests overseas.

Legal firms reported some improvement but with continued caution about the outlook. In the last month, contacts report a steady stream of litigation and bankruptcy work and a noticeable increase in transactional and venture capital work. Accounting firms also say activity increased in the past month, primarily for tax work but with some improvement on the transactional side.

Retail Sales

Retailers report signs of gradual improvement, but sales growth remains uneven. Some contacts said that there was a noticeable slowing of sales after the tax payments were spent. Others indicated some worsening of the indicators they use to measure the financial viability of consumers. Department stores noted improved sales of women's apparel. Competition remains stiff, and two large retailers report that selling prices are down about 2 percent from a year ago. Automobile sales remained soft and are mostly driven by incentives, rebates and low-cost financing.

Financial Services

Financial service contacts reported similar conditions to the last report. Contacts continued to report gradually improving attitudes and expectations, but only a moderate increase in lending activity because many potential borrowers remain cautious about going forward. Mortgage lending, including refinancing, remained strong, partly because borrowers rushed to close as rates edged upward. Most contacts expected this rush to slow by now, but say it is still pushing mortgage lending volumes up. Commercial and industrial lending is mildly positive. Interest and traffic is up but customers remain cautious and are still unwilling to pull the trigger. Mergers and acquisitions activity is also picking up leading to higher fee income. Larger banks with more ties to financial markets are experiencing growth in this area, which is positively impacting earnings. Contacts say that asset quality is stronger, and deposit growth continues to be strong

Construction and Real Estate

There was little change in construction and real estate markets. The single-family market recorded steady demand, with August sales of existing homes reaching record highs in several Texas markets. Single-family builders noted that while demand for new homes was still at good levels, more incentives were being offered to lure new buyers. Without a pickup in job growth, many builders don't expect the current pace of demand to be sustained.

The apartment market remained weak. Properties that were in the pipeline before the downturn are still being built, and demand is low. Occupancy rates are flat to down, and rent concessions continued. Contacts in the office market noted increased "activity" but said it was mostly due to local companies re-negotiating leases or moving to new space within a city. Any significant improvement in the office market will depend on a markedly improved job picture, according to contacts.

Energy

The energy industry reported little change from the last Beige Book. Domestic demand has flattened out in recent months along with the U.S. rig count and remained flat in recent

weeks. Contacts say the level of activity is high but disappointing compared to expectations of earlier this year. Exploration expenditures are up 33 percent this year over last, but they continue to be weaker than might be expected with the current price of oil and natural gas. Drilling in the Gulf of Mexico, a critical area for U.S. gas supplies, has remained near 100 working rigs or near the low of the last drilling downturn. International activity continues to improve slowly, providing good revenues for U.S. producers and service companies.

Agriculture

Harsh weather dramatically reduced the cotton crop in some parts of Texas. Recent cooler weather and rains have improved topsoil conditions for some remaining row crops and pastures, however. Vegetable producers in South Texas reported that heavy rains had delayed fall planting. Pasture conditions for livestock have improved in recent weeks. In addition, cattle producers are enjoying record high prices, which should result in increased profitability this year.

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Twelfth District--San Francisco

Reports from Twelfth District contacts indicated some further pickup in economic growth in September. Despite continued increases in demand, many respondents indicated that strong competitive pressures continued to hold down prices and that productivity gains continued to keep hiring at bay. Retailers reported that sales continued to improve and service providers noted a further pickup in the demand for travel, software, and media services. Reports indicated that overall manufacturing activity continued to rise; orders strengthened for manufacturers of semiconductors, apparel, and lumber and wood products. Conditions for District agricultural and resource-related products were robust in recent weeks. Respondents indicated that the demand for homes remained strong, while the demand for commercial real estate remained sluggish. Banking contacts reported an increase in business loan originations in several District markets; however, mortgage refinancing activity continued to contract in recent weeks.

Prices and Wages

Most District respondents reported very little upward movement in prices. However, there were some exceptions. Energy prices were mixed, with gasoline prices falling but with residential electricity and natural gas prices increasing modestly. Several contacts noted that prices for lumber and other housing materials have shot up in response to strong demand from the Iraqi rebuilding efforts. Finally, health care costs appear to be rising rapidly.

Although demand for many goods and services have increased in the District, employment conditions have continued to languish. A majority of District respondents reported no immediate plans to increase hiring, although some are optimistic that they will start hiring in a couple of quarters. For instance, District retailers, service providers, and banks have relied heavily on employee overtime and improved efficiency to meet increased demand. District manufacturers have used productivity gains and increased outsourcing to meet demand. In agriculture, producers have replaced some workers with machines for harvesting.

Retail Trade and Services

District retailers generally reported improved sales in September and early October. Back-to-school sales reportedly were strong, and department stores placed new orders to

manufacturers after working off inventories of old merchandise in recent weeks.

Automobile sales slipped some in September but remain at a high level; demand for some domestic brands came in below expectations given the generous financing available, but demand for foreign brands appeared to remain strong.

Demand in the District for other services strengthened further in September, particularly for IT and media services. Respondents indicated that this could be explained partly by a pickup in demand for efficiency-enhancing technologies. Also, contacts reported a pickup in demand in food and restaurant industries.

Conditions in the District's travel and tourism sectors improved further in September and early October. In Hawaii, international visitor counts have begun to increase after having been battered by fear of SARS and the war. Domestic visitor counts continued to be strong. Hotel occupancy rates have inched up in several District markets. On the down side, convention bookings have yet to pick up in Utah, and several airlines continue to face excess capacity.

Manufacturing

Manufacturing activity strengthened overall in September. Semiconductor producers reported a further pickup in demand for microprocessors, DRAM, and flash memory. As a result, capacity utilization in high-end fabrication plants is high and inventories are well balanced. Contacts also noted an increase in demand for storage devices. Demand conditions remained stable in biotech industries, and a rise in venture capital investment bodes well for biotech startups. Consistent with the pickup in apparel sales, clothing manufacturers reported a more positive demand outlook, although there continues to be a shift from producing apparel domestically to overseas. Demand for lumber and particleboard has increased, reflecting a surge in demand for projects in Iraq and continued strength in housing markets.

On the downside, makers of telecommunications equipment and commercial aircraft continued to face overcapacity and weak orders and sales. Demand for machine tools and basic metals softened slightly relative to robust activity during the last survey period.

Agriculture and Resource-related Industries

Demand for most agricultural and resource-related products grew in the most recent survey period. Yields of fruits, vegetables, and nuts were high and inventories were near desired levels. Demand for District livestock, notably cattle, was strong, partly as a result of diverted demand from potentially diseased Canadian beef. Overproduction in the wine industry has led to excess inventories and downward pressure on prices. Prices for other agricultural goods remained stable and export activity continued to show strength for most markets.

Real Estate and Construction

Conditions in District real estate remained mixed, with commercial real estate markets still in a slump and residential markets still solid. Sales of new and existing homes remained robust, especially in Hawaii, Southern California, and some parts of Arizona. Elsewhere, there were some reports of moderation in home sales, although sales and prices generally were up from a year ago. On the commercial side, vacancy rates remained high but little-changed from the last survey period or from a year-ago. Respondents indicated that rental rates probably will stay at low levels for the time being, as landlords make concessions to

increase occupancy.

Financial Institutions

District financial institutions generally experienced increased demand in the most recent survey period. Demand for business loans strengthened in recent weeks, while fierce competition for quality loans continued to put pressure on margins. Several bank contacts noted an acceleration of deposit inflows from businesses, which may signal improvements in general economic conditions. Loan growth was particularly strong in Southern California and Hawaii, consistent with robust economic activity there.

Mortgage refinance activity declined further across the District, with no signs of pickup despite a slight decrease in interest rates during the survey period. Origination of new mortgages for home purchases remained strong, although District bank contacts observed signs of moderation in some markets.

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