



November 26, 2003

Summary of Commentary on Current Economic Conditions by Federal Reserve District

Summary

Prepared at the Federal Reserve Bank of Atlanta and based on information collected before November 17, 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.

Reports received from the District Banks suggest that the economy continued to expand in October and early November. Descriptions of the pace of growth varied somewhat. But improvements appeared to be reasonably broadly based, with most districts noting growth in a number of industries. Overall, wages and prices of finished goods and services remained fairly stable, although some increases in input prices were noted. Virtually all districts continued to report concerns about rising health care costs.

The majority of districts noted that retail spending was up on a year-over-year basis. Expectations for holiday retail sales were reported as generally positive. Reports on auto sales were mixed, with sales results closely linked to manufacturers' incentives. Travel and tourism activity improved overall, as did other service sector industries.

Manufacturing activity picked up in most districts, but few noted employment gains in the factory sector. Almost all districts characterized residential real estate activity as strong, but commercial real estate markets remained weak. Reports from the banking sector generally indicated subdued loan demand and some increase in investment banking activity. Agricultural conditions were good in most reports, while activity in energy-related industries was mixed. Labor markets conditions generally stabilized after an extended period of weakness. Several districts noted a slowing in layoffs and stronger demand for temporary workers.

Consumer Spending

Reports on retail spending were generally positive, although some weakness was attributed to unseasonably warm weather in several parts of the country. Boston, Atlanta, St. Louis, Minneapolis and Kansas City indicated that sales exceeded year-ago levels, while San Francisco described sales as "solid." Philadelphia said that sales were rising in early November after weak results in October, and Richmond noted recent improvements as well. Dallas and Cleveland indicated that sales growth remained uneven, while New York and Chicago described sales as soft. New York, Philadelphia, Atlanta and Chicago stated that warm weather put a damper on sales, particularly of apparel. Atlanta and San Francisco

reported some discounting. Most districts said that inventories were well positioned, with many retailers keeping stocks lean.

Discussions of retailers' expectations for the holidays were generally positive. New York, Philadelphia, Richmond, Atlanta and Kansas City said that holiday sales are expected to match or exceed last year's levels, while St. Louis and Minneapolis reported that retailers are optimistic. Kansas City said that retailers expect strong holiday sales while Boston, Cleveland and Chicago reported mixed expectations. New York and Minneapolis reported that retailers expect to hire similar numbers of seasonal workers as last year, whereas Kansas City indicated that many retailers plan to increase seasonal hiring.

Reports on auto sales were mixed across districts. Removal of generous factory incentives reportedly drove down sales in the Atlanta, Minneapolis and San Francisco districts; St. Louis noted that the incentives might have shifted sales into the summer from the fall. Chicago also indicated that sales weakened. Philadelphia, in contrast, reported a pickup in sales in early November because of new manufacturers' incentives after a "relatively sharp" drop in sales in October; Cleveland similarly noted that sales were tied to incentives. Kansas City reported that despite aggressive manufacturer incentives, sales improved more for used cars than for new cars. Boston reported strong sales of imported models but mixed results for domestic models. Several districts noted that manufacturers are expected to roll out new incentive programs to boost sales in the coming months.

Tourism and Services

Activity in the tourism and hospitality industry improved moderately overall, according to most reports, but business travel remained subdued and international tourism was still weak. Early snows and cold conditions in ski areas pushed up demand in the San Francisco district. New York reported that occupancy rates at Manhattan hotels were up noticeably from a year ago. Minneapolis reported "generally solid" tourism activity. According to Richmond, coastal areas were still recovering from damage caused by Hurricane Isabel, but mountain areas were booked almost to capacity for the Thanksgiving holiday. Atlanta reported increased traffic at amusement parks and tourist attractions in central Florida because of deals and discounts; south Florida's cruise industry continued to report strong numbers, and advance bookings at resorts and hotels are reportedly encouraging. San Francisco noted that the number of international visitors to Hawaii remained soft, but the weaker dollar is expected to boost traffic in coming months.

Business conditions also generally improved in other service industry sectors. Boston and San Francisco said that demand for software products improved; the outlook for software and IT services moved from cautious to optimistic, according to Boston. Richmond reported steady demand at professional, scientific, and technical service firms and higher demand at environmental services firms. In the San Francisco district, demand for professional services such as accounting, securities, and legal services stabilized after months of contraction. Richmond, St. Louis and San Francisco reported continued strong demand for healthcare services. Cleveland, Richmond, Atlanta and Dallas reported increases in transportation services. In general, increased seasonal freight was the main contributor to recent growth in land transportation.

Manufacturing

Manufacturing activity improved in most districts. Factory expansion was broad based in the Richmond district, with firms in almost all sectors reporting higher shipments, while

Chicago said that new orders remained strong or were up for medium- and heavy-duty truck and construction equipment manufacturers. Dallas, Boston, San Francisco and Minneapolis noted positive reports among manufacturers of various high-tech products. Demand increased for building materials suppliers in the Atlanta and San Francisco districts. Cleveland reported that automakers and some steel producers increased activity and that most nondurable producers there indicated "little if any" spare capacity. Higher levels of capacity utilization were also noted in the Kansas City district. St. Louis reported that the manufacturing sector showed signs of improvement despite some plant closings and layoffs. Less positively, Dallas reported continuing overcapacity in the petrochemical industry, and Atlanta and Richmond noted weakness in textile or apparel production. Weak demand for paper products adversely affected manufacturers in the Boston, Atlanta and Dallas districts.

Factory employment growth remained weak, according to a majority of districts. Boston reported that most manufacturers expect to hold domestic employment fairly flat in coming months. Cleveland, Richmond and Atlanta stated that permanent staffing levels were little changed. Dallas said that productivity growth and outsourcing continued to slow factory job growth. However, New York indicated modest increases in factory employment. Capital spending plans have changed little in recent months in many districts. Chicago noted that spending was mainly for repair and maintenance of existing equipment.

Real Estate and Construction

Residential real estate markets continued to show strength in virtually all districts. Home sales and construction maintained a brisk pace in most districts. However, Richmond and Atlanta noted some easing in recent weeks. Dallas relayed concerns about rising housing inventories in several areas, with homebuilders offering increased incentives. Chicago reported that the mid-priced housing market softened somewhat from earlier reports but that some areas experienced a small uptick in luxury housing markets; Kansas City noted mixed results for high-end construction. Residential activity is expected to remain robust overall into next year, by most accounts.

Most districts once again characterized commercial real estate markets as currently weak. However, the outlook was a bit more upbeat, with strengthening anticipated next year in many districts. Vacancy rates remained at high levels across most markets; however, there were scattered reports of small improvements in leasing or construction activity in the New York, Cleveland, Atlanta, Chicago, Minneapolis and San Francisco districts. St. Louis noted "booming" hospital construction. Richmond reported a "noticeable increase" in office and retail leasing but sluggish activity in industrial space. Philadelphia, Boston and Kansas City reported generally stable markets. Kansas City, St. Louis, Minneapolis and Dallas noted expectations of more favorable markets in some areas next year.

Banking and Finance

Loan activity was subdued in most districts. St. Louis and Chicago reported little change in overall lending activity. Loan demand was characterized as flat by Richmond, slowly increasing by Dallas and mixed by Cleveland. Outstanding loan volume moved up slowly in the Philadelphia district in November, and some banks there were limiting their residential real estate lending to prevent mortgages from becoming too large a portion of their loan portfolio. New mortgage originations were fairly strong in the Philadelphia, Chicago and San Francisco districts. Refinancing activity slowed in all districts that commented on mortgage lending. Commercial and industrial loan demand was said to have edged up in the Kansas City and Richmond districts, to be unchanged in Dallas and to have remained at low

levels in Atlanta and San Francisco. Loan quality remained good in most districts, and New York said that delinquency rates declined across the board. Lending standards were generally unchanged, according to most reports.

Financial institutions reported mixed results in other activities. New York and Atlanta said that deposit growth held steady, while San Francisco reported a pickup. Kansas City reported that all types of deposit accounts rose except for large CDs, but Cleveland noted slower growth in core deposits. Merger and acquisition activity began to rise from low levels in the Chicago and Dallas districts. Philadelphia said that demand for business financing prompted an increase in investment banking activity, while venture capital firms were beginning to evaluate start-up projects in the Atlanta district. However, Dallas reported that there was still "not a lot" of IPO activity.

Agriculture and Natural Resources

Favorable weather and improved market conditions continued to benefit farmers and ranchers in most districts reporting on agricultural activity. Mild, dry weather boosted farm production in Richmond, Atlanta, St. Louis and Kansas City districts. San Francisco also noted increased yields, while Chicago and Minneapolis reported improved conditions for most agricultural products. Kansas City and Dallas reported that market conditions were mostly good for cattle ranchers, but dry weather hurt cotton growers in the Dallas district.

Reports on energy-related industries indicated mixed conditions. Richmond noted that economic conditions in Central Appalachian coal fields were "favorable," with higher capital investment in new mining equipment expected. Minneapolis reported that activity in the energy and mining sectors was stable, and Kansas City reported that energy activity was strong. Dallas noted seasonal cutbacks in production by refineries and continued excess capacity in onshore rigs and a pickup in international drilling. Natural gas providers in the San Francisco district are reportedly fully stocked for the winter season.

Labor Markets, Wages and Prices

Labor markets across the nation generally improved or remained stable, with several districts noting a slowing in layoffs. Stronger demand for temporary workers was noted by Boston, Richmond and Minneapolis; Chicago added that the higher demand for temps was widespread. Several districts indicated that firms are waiting for sustained increases in orders before hiring permanent workers, although Boston reported some increases in permanent placements by temp agencies. Firms had difficulty finding some specialized workers in the Kansas City district, but labor markets remained slack there overall. Dallas and San Francisco also reported slack labor markets, although Dallas did note fewer layoffs. Minneapolis also reported increased hiring plans in some areas. Labor markets remained steady in the Cleveland and Atlanta districts as a whole, with few signs of impending increases in employment.

Wage pressures were mostly subdued, although almost all districts reported concerns about escalating health and other insurance costs. Several districts noted that employers were shifting more health insurance costs onto employees, with Kansas City adding that some small firms are eliminating health insurance entirely. Dallas cited rising health insurance costs as a factor, making firms reluctant to add new employees. New York reported that bonuses in the securities industry are expected to be 20 percent higher than last year.

Increases in some commodity prices were noted. Several districts noted higher prices for

plywood and steel, and Kansas City also reported price increases for brick and cement. Dallas noted higher prices for primary metals, while Chicago reported a rise in prices for some heavy equipment and gypsum wallboard. Boston noted concern about upward price pressure due to higher transportation costs after new trucking regulations are implemented, while Dallas said that the regulations might also make it more difficult to hire drivers. San Francisco noted that residential rebuilding after the recent fires in Southern California is likely to boost prices of building materials and wages of construction workers.

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First District--Boston

Business contacts in the First District report improving conditions at the end of the third quarter and early in the fourth quarter. While results are mixed from month to month, retailers cite fairly consistent sales increases from a year earlier. Contacted manufacturers and software firms indicate that demand seems to be improving. While retailers and manufacturers mention only scattered employment increases, most staffing firms report growing demand for labor. Contacts express concern with increases in input prices and other business costs such as insurance, while selling prices are generally level.

Retail

First District retailers cite mixed month-to-month changes in September and October, but most of the surveyed merchants report year-over-year gains, ranging from 5 to 9 percent. A contact from the office supply sector reports particularly strong sales of durable goods, such as computers and office furniture, and expects technology-based products to be big sellers in the upcoming months. A surplus merchandise respondent notes that a pickup in big-ticket sales, such as furniture, compensated for a decline in customer count in October. According to auto dealers, imported automobile sales are strong, while domestic sales are mixed. Many dealers expect manufacturers' incentives to spur domestic sales growth this winter season. Most retail respondents indicate that they are maintaining lean inventory levels. Several contacts report increases in headcount with the opening of new stores and some respondents plan to hire seasonal workers in the upcoming months. Wages are reportedly steady. Selling prices and vendor prices are mostly even, though one contact expresses concern about upward price pressure due to increasing costs in transporting products once new trucking regulations are implemented.

The consensus among contacted retailers is that sales will improve moderately in the next six months. Several store executives said they expect sales this Christmas season to surpass those of last year, while one respondent expects the upcoming season to be very "promotional."

Manufacturing and Related Services

A majority of First District manufacturing contacts note signs of recovering demand in the third and fourth quarters. Semiconductor manufacturers indicate a solid upward trend in sales, boosted by customers' upbeat projections of demand for PCs, printers, and cell phones. Military purchases are reportedly rising at a double-digit rate. Some consumer goods makers are selling more than a year ago as a result of promotional efforts or restocking at retail. However, other firms report that business is choppy or remains in the doldrums. For example, a paper company is taking selected downtime, a manufacturer of commercial aircraft is keeping production low, and a beverage firm says November sales are

coming in lower than a year earlier.

Manufacturers report that rising demand is leading-or will soon lead-to higher prices for certain inputs such as metals, silicone wafers, and hardwoods. Fuel surtaxes and plastics costs remain high, and insurance costs continue to increase. Equipment manufacturers say that their selling prices continue to decline. Paper companies and some consumer goods manufacturers are offering discounts in order to boost sales. Apart from these cases, other materials costs and selling prices are generally flat.

Most of the contacted manufacturers expect to hold domestic employment fairly flat in coming months, although some are adding engineers and temporary factory help. Base pay increases for 2004 are projected to be 2.5 percent to 4 percent. Companies are about equally divided as to whether they will be increasing capital spending in the U.S. or keeping it steady. Several respondents are planning overseas expansions, particularly in Asia.

In discussing the sales outlook for the holiday season and 2004, manufacturing contacts tend to be more upbeat than they were earlier in the year. Most firms predict rising revenues for 2004. However, they say they are guarding against increasing production too much in response to positive projections, and they continue to make concerted efforts to use their working capital and other resources as efficiently as possible.

Temporary Employment

A majority of responding temporary employment agencies in New England report growing labor demand in Q4 2003. While reports on year-over-year revenue growth are mixed, a sizable majority of contacts say revenues are higher than three months ago. Some respondents report an increase in permanent placements. Gains in information technology, software, and other technical openings were greatest, with respondents also noting demand improvements in manufacturing, light industrial, administrative, construction, and financial employment. Labor demand grew most along Route 128 in Massachusetts, in southern New Hampshire, and southern Maine, while Vermont remains weak.

Some respondents believe labor supply is tightening. Bill rates and pay rates are stable. Non-payroll related costs are said to be under control, except for medical insurance.

Respondents are more optimistic than three months ago, with most anticipating that growth in labor demand will be sustained through 2004. While contacts are pleased by rising labor demand, the performance of the stock market, and recent GDP and payroll employment reports, they express concern about shifts in IT employment abroad, rising healthcare costs, federal budget deficits, and terrorism.

Commercial Real Estate

The Boston area office market is not showing any signs of recovery. Vacancy rates are very high and rental rates remain low. Because there has been almost no new construction, vacancy rates have not risen. Notwithstanding low rents, the market for office building sales is very strong. Downtown Boston office towers, in particular, command very high prices per square foot, with sale prices substantially above replacement cost.

The rest of New England is stable. Contacts report little activity in commercial markets. Office vacancy rates have increased somewhat in the Portland area, and dropped slightly in Providence. Elsewhere, vacancy and rental rates remain steady. The retail sector is relatively strong throughout the region (in greater Boston, the only new development is in the

suburban retail sector). Contacts do not anticipate that commercial markets will rebound for at least a year, and some believe that the Boston office market will not improve until 2007 or 2008, when most leases will be rewritten.

Software and Information Technology Services

Demand for software products has improved since August 2003. Companies selling software development tools and custom application software, as well as medical, human resources and telecom software firms report various degrees of improvement from the second to the third quarter, although software sales in the telecom sector remain below last year's levels. Companies with the steepest revenue growth continue to hire, with a few other firms citing flat employment. One respondent reports a 35 percent increase in his company's capital budget, while the majority of interviewed firms have kept their capital expenses flat. After heavy capital budget cuts, the telecom sector continues to restrain capital spending.

The outlook of software and IT services firms has moved from cautious to optimistic, even for companies who previously said they were uncertain about the economy's future course. While revenue expectations for the first quarter of 2004 range from flat to double-digit increases, the prevailing opinion is that gradual improvements in the software sector will persist.

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Second District--New York

The Second District's economy has given generally positive signals since the last report, despite some signs of slowing in consumer spending. There has been a further pickup in hiring activity in a number of sectors. Recent business surveys point to further gains in manufacturing activity in recent weeks. Consumer confidence rebounded in October, after declining for a number of months. On the other hand, most retailers report that sales were somewhat below plan in October and early November, partly due to weather.

Both residential construction and the market for existing homes have remained robust. Manhattan office vacancy rates were mixed in October, with some improvement Downtown but an uptick in Midtown. Strong profits and revenues in New York City's financial industry are reportedly driving up bonuses and prompting a pickup in hiring. Finally, bankers report some weakening in demand for consumer and especially home-mortgage loans, but across-the-board declines in delinquency rates.

Consumer Spending

Retailers report mixed but generally soft sales results for October and early November. While a majority of contacts report that sales were below plan, two chains indicate that they were slightly ahead of plan; year-over-year same-store sales changes ranged from a decline of 4 percent to a gain of 4 percent. All contacts, even those running ahead of plan, say that unseasonably mild weather hurt sales of winter apparel. Sales of household furnishings, as well as jewelry, have remained persistently strong. Most retailers indicate that inventories are in good shape; two chains report that stocks are a bit on the high side but note that the bulk of the season's sales come after Thanksgiving. Retailers report that selling prices are steady to down 3 percent from 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 and are looking to hire roughly the same number of seasonal workers as last year.

Consumer confidence rebounded in October, based on two separate surveys. Siena College's monthly survey of New York State residents shows confidence jumping to its highest level in more than a year, led by the New York City metro area, while the Conference Board's confidence index for the Middle Atlantic states (NY, NJ, PA) posted a more moderate rebound.

Construction and Real Estate

Residential real estate markets continued to show strength since the last report, while commercial markets were steady, on balance. Realtors in both New York State and New Jersey report that median selling prices were up more than 10 percent from a year earlier in the third quarter, while unit sales were up moderately. A large Manhattan real-estate firm and a leading appraisal firm both report that sales were brisk across the board in October and early November, and that prices were steady at the high end of the market and up moderately for smaller units. They also report lean inventories of homes on the market.

Housing permits rose in the third quarter, with a pickup in the single-family segment overshadowing a dip in multifamily permits. Still, year-to-date, multifamily permits are running more than 10 percent ahead of 2002 levels and are on track for the strongest annual performance since 1987. More recently, homebuilders in northern New Jersey report persistent strength in the market through mid-November, with prices continuing to rise, though at a more subdued pace than earlier in the year. One industry contact reports a noticeable pickup in bridge loans, which is attributed to homes taking longer than expected to sell.

Manhattan's office market was mixed in October. Data from a major brokerage show Midtown's vacancy rate rising from 11 percent to 11.9 percent, but Lower Manhattan's rate edging down from 12.9 percent to 12.4 percent. However, asking rents, though still well below a year earlier, rose in both areas. An industry contact notes that Lower Manhattan's market has been helped by soon-to-expire tax incentives for new leases.

Other Business Activity

A major New York City employment agency, specializing in office jobs, reports that hiring activity remained generally brisk in October and the first half of November, and that there seem to be fewer people looking for work. Separately, a contact in New York City's securities industry reports that this year's strong improvement in industry revenues and profits has begun to drive a moderate pickup in hiring and expects variable compensation (bonuses) to rise nearly 20 percent from a year earlier. Manhattan hotels report strong results for October-typically the busiest month of the year-with room rates about on par with a year earlier and occupancy rates up noticeably. One major hotel reports that it is completely booked up for every weekend until Christmas. In contrast hotel occupancy rates in the Buffalo-Niagara Falls area were moderately lower than a year ago in September.

The manufacturing sector has continued to give positive signals in October and early November, even in terms of employment. Our latest Empire State Manufacturing Survey, conducted in the first half of November, points to further widespread improvement in business conditions, increased employment and little change in input costs or selling prices. Similarly, New York City area purchasing managers report further widespread improvement in the manufacturing sector in October, as well as a pickup in other sectors. Buffalo-area purchasers also report that manufacturing-sector conditions continued to improve in

October, with accelerating production activity, steady growth in new orders and modest increases in employment. On the other hand Rochester-area purchasing managers report some softening in manufacturing sector conditions. Reports on input prices were mixed: some escalation was reported from Buffalo, but declines were indicated in Rochester, and little change in the New York City area.

Financial Developments Small to medium-sized banks in the Second District report decreased demand for household loans over the past two months, but steady demand for commercial mortgages and commercial and industrial loans. As in the last survey, residential mortgages saw the largest decrease, with more than two in three bankers reporting lower demand. A sizable 40 percent of respondents also report weakening demand for consumer loans. Lower refinancing activity was reported by more than three-quarters of bankers.

On the supply side, almost all respondents report that credit standards did not change for any type of lending. Interest rates rose for residential and commercial mortgages, but did not change for other loan categories. Most bankers also indicate that average deposit rates remained constant. Finally, delinquency rates decreased noticeably for all categories of loans, with roughly five times as many bankers indicating an overall decrease as an increase.

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Third District--Philadelphia

Economic conditions in the Third District were improving in November. Manufacturers reported increases in orders and shipments for the month. Retail sales of general merchandise picked up in early November after slipping in October. Auto and light truck sales also rebounded somewhat after dipping in October. Bank lending has been advancing, with gains in business and residential mortgage lending but little change in consumer loans outstanding. Commercial real estate markets in the region remain soft, with lackluster leasing activity and declining rents. Residential real estate construction and sales continued to be strong.

Looking ahead, contacts in the Third District business community expect business activity to continue rising modestly. Manufacturers forecast increases in shipments and orders during the next six months. Most of the retailers surveyed in early November forecast year-over-year sales gains of a few percent for the upcoming Christmas shopping period. Bankers expect moderate growth in lending into next year. Commercial real estate companies expect the region's office markets to firm up slightly in 2004, and residential real estate agents and builders anticipate a nearly steady sales rate during the year.

MANUFACTURING

Reports from Third District manufacturers in early November indicated that orders and shipments were rising compared with October. Slightly more than half of the firms contacted said demand for their products was steady, but one-third said their orders were increasing, and only a few said demand for their products had eased. Although most firms said their order backlogs were steady, almost one out of five reported that their backlogs were growing. On net, order backlogs at area plants have been moving up slowly for the past several months. Business conditions were relatively stronger for firms producing

electrical machinery, measuring and controlling instruments, and a variety of metal products. Conditions were relatively weaker for makers of lumber products, plastics, and transportation equipment.

The region's manufacturers expect the upward trend to continue. More than two-thirds of the firms contacted for this report expect increases in shipments and orders, and only a few expect decreases during the next six months. Area manufacturing firms plan to increase production through a combination of additional work hours and added employees. More local manufacturers are scheduling increases rather than decreases in capital expenditures in the next six months.

RETAIL

Third District retailers generally reported that the pace of sales slipped in October compared with September and with October of last year, but was on the rise in November. Executives at department and clothing stores said unseasonably warm weather during most of October brought sales of outerwear nearly to a standstill. Many area retailers reported a drop off in store traffic in October, which they said might also have been a result of the warm weather that favored outdoor activities rather than shopping. Sales appeared to have resumed an upward trend as November began, and retailers said cold weather clothing was selling well by mid-month. Merchants said sales of home furnishings continued to be strong.

Third District retailers expect sales for the Christmas shopping period to be slightly above last year's results. Their forecasted increases are in a narrow range of 3 percent to 4 percent, in current dollars. Although merchants believe consumer confidence is building, they expect sales growth to be limited because shoppers are very price conscious and there are no high-demand items to boost spending this season.

Auto dealers reported a relatively sharp drop in sales in October, compared with the prior month and year, but they said sales were picking up in early November. Some dealers said an increase in manufacturers' incentives in recent weeks has helped boost the sales rate. Dealers said the outlook is uncertain, but they do not foresee a big turn to a lower or higher sales rate in the immediate future.

FINANCE

Outstanding loan volume at Third District banks was moving up slowly in November. Banks reported increases in commercial and industrial loans, mainly to middle market companies in a broad range of industries that are beginning to implement expansion plans. The demand for business financing has also prompted an increase in investment banking activity on behalf of firms in the region. Residential real estate lending was on the rise as banks continued to book purchase mortgages even while refinancings declined. Some banks said they have been limiting their residential real estate lending in order to prevent mortgages from becoming too large a portion of their loan portfolios. Bankers generally indicated that consumer lending has been about flat, and some reported declines in consumer loans outstanding in recent weeks.

Bankers in the District expect moderate growth in lending to continue into next year. They expect business lending to rise somewhat more strongly in the new year, and they anticipate a fairly steady rate of residential lending for purchase mortgages, but they expect further declines in refinancings. Bankers believe consumer lending will rise modestly if employment gains persist, but some said that if interest rates move up consumers' ability and

willingness to borrow could weaken. In general, bankers in the District indicated that credit quality for both personal and business loans has been improving. Several noted that there is strong demand in secondary markets for problem loans, and they have sold off significant amounts of troubled credits.

REAL ESTATE AND CONSTRUCTION

Commercial real estate firms in the Third District reported that the overall office vacancy rate rose in suburban markets in the third quarter, but was practically steady in the Philadelphia central business district. For suburban markets as a whole the vacancy rate is estimated at 25 percent, up around 3 percentage points since midyear. The increase was mainly the result of a large corporation relocating to a new building, putting its former space on the market. The vacancy rate in the Philadelphia central business district remains at nearly 13 percent. Throughout the region, average asking lease rates have edged down and effective rental rates have continued to decline as landlords offer generous tenant improvement allowances, especially for firms that lease relatively large amounts of space. Commercial real estate contacts say vacancy rates in suburban office markets will not decline in the immediate future because several large buildings currently under construction will be completed around the end of the year. For 2004, vacancy rates in the region as a whole are expected to decline slightly.

Residential real estate agents and homebuilders reported that sales have been steady or rising in recent weeks. Price appreciation for both new and existing homes was said to be steady as well, and some builders indicated that the percentage of buyers who order upgraded features in new homes has been increasing. Homebuilders and real estate agents generally expect the pace of sales to continue near its current rate into next year. They believe an improving economy will support a high sales rate even if mortgage interest rates begin to move up.

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Fourth District--Cleveland

Business conditions for firms in the Fourth District appeared to improve from late September to early November. While most durable goods manufacturers saw production levels stay steady in recent weeks, automobile and steel producers reported increases in production of late. Nondurable goods producers continue to report increases in production, and most indicated lower levels of idle capacity than durable goods producers did.

District retailers typically reported monthly increases in sales in September and October. However, growth rates were uneven, and despite optimism about the outlook, many retailers reported that sales levels in recent weeks were lower than at this time last year. Residential building remains strong, and while commercial construction is still weak, there are signs of improvement in the sector. Finally, activity for trucking and shipping firms is said to have increased significantly in the last six weeks.

For the most part, price pressures continue to be muted; however, there were some reports of rising commodity prices, as well as reports of rising steel and energy prices. A variety of businesses also reported rising labor costs due to increases in health insurance premiums. Despite an apparent pick-up in economic activity, few contacts indicated any intention to increase staffing levels outside of seasonal additions.

Manufacturing. Most durable goods producers reported that production levels remained flat in October relative to September. Compared to a year ago, about half of those contacted reported a slight increase in production, while an equal number saw little change. Nondurable goods producers, on the other hand, experienced more consistent growth, with most again reporting modest production increases in the October. Most contacts in nondurable goods production reported an increase in year-over-year production levels.

Both nondurable and durable goods producers reported lower inventory levels than at this time a year ago. A small majority of durable goods producers reported that more than a quarter of their capacity remained idle, but nondurable goods producers mostly reported little if any spare capacity. The use of overtime was more widespread among nondurable goods producers than among durable goods producers, but permanent staffing levels remained little changed for both types of manufacturers. Most producers reported that their input prices were flat or had fallen somewhat in the last month, though some noted increases in steel prices. There were also isolated reports of other increases in commodity prices. Over the last year, input prices are reported to have risen for nearly all contacts involved in nondurable goods production.

Production for the auto manufacturing facilities that we follow in the District rose significantly from September to October. Relative to a year ago, total automobile production in the District appears to have risen about 10 percent. By contrast, national automobile production is reportedly flat from a year ago.

Domestic steel producers reported flat to increasing shipments in recent weeks. Demand for steel was mixed across various market segments: Shipments to auto producers reportedly remained steady, while demand from commercial builders was sluggish, and demand from defense-related contractors continued to be strong. A few firms indicated that their rate of capacity utilization rose slightly to accommodate increases in shipment volumes. Nevertheless, most firms have maintained normal work schedules in recent weeks and do not have plans to increase the size of their workforce. There were reports of some cost pressures for steel producers, particularly with respect to rising natural gas prices. Steel prices have reportedly risen in recent weeks, and several producers indicated that they intend to increase prices again in early 2004.

Retail Sales. Several specialty retailers indicated that sales seemed to be improving in recent weeks, though they are still below the levels of a year ago. Discount stores in the District also reported strong recent sales gains, but department stores continued to fare worse than other types of retailers. Some contacts noted that department stores on the coasts seem to be seeing stronger sales than those in the Midwest. While apparel sales, in general, remain soft, contacts noted that furniture and other consumer durables were selling well, as were novelty gifts, jewelry, and personal care items. Many contacts expressed optimism about the coming holiday selling season, but others remain cautious.

Prices at the vendor and retail levels are reportedly mostly unchanged in recent weeks, while inventories are reported to be flat or down relative to a year ago and continue to be tightly managed. Contacts noted that it remains easy to find qualified job applicants.

On balance, new car sales in the District were flat; about as many contacts said that sales worsened in October relative to September as said that they improved. Much of the month-to-month fluctuations appear to be incentive-driven. Ford and Chrysler recently reduced the

rebates they offer, and sales of these makes, according to contacts, have fallen as a result. Sales of other makes were reported to have been stronger. Used car sales were said to be steady or slightly improving.

Construction. The pace of residential building remained strong across the District. However, several contacts suggested that some sales activity that might otherwise have occurred within the last several weeks occurred in the summer instead, as buyers attempted to lock in lower mortgage rates. As a result, some builders reported that their sales were flat or slightly above those for this time last year. Materials prices were largely unchanged in recent weeks, with the exception of plywood prices, which have been rising. Employment levels were little changed in recent weeks.

There are indications that commercial construction is improving in some parts of the District, but overall conditions continue to be weak. Demand for new office space seems particularly weak in downtown Pittsburgh; by contrast, with vacancy rates beginning to decline, office construction activity appears to be increasing slightly in Columbus, Ohio. Reports from builders whose clients are primarily manufacturers were mixed. There was little or no change, overall, in input costs. Staffing levels also remained steady.

Trucking and Shipping. Activity among trucking and shipping firms increased significantly in September and October, after modest increases in August. All firms also reported that activity in the last six weeks is above that for this period last year. The acceleration in trucking and shipping activity appears to be partly the product of increasing demand from both retailers and manufacturers. Fuel costs have reportedly stabilized since the summer. Recent increases in demand are prompting some firms to consider increasing compensation levels to attract workers.

Banking. Breaking with the recent pattern, growth in core deposits at District banks slowed. Some banks actually reported a slight decline in deposits in the last six weeks. Loan demand remained mixed in recent weeks. As many contacts reported an increase in their commercial lending levels as reported no increase. All but one contact reported that their consumer lending levels fell or were unchanged. Mortgage refinancing is down from recent record levels.

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Fifth District--Richmond

Overview Economic growth in the Fifth District picked up a notch in October and early November as activity in the retail and services sectors increased more quickly and manufacturing output rose. Retailers said that customer traffic improved and they reported higher revenues and employment in recent weeks. Manufacturers chalked up substantial increases in shipments and new orders in October; the strongest growth rates in over six months. Commercial real estate activity moved higher as well, and while growth in home sales eased a little, residential realtors continued to record exceptional home sales figures. District bankers reported stronger commercial lending, but noted that residential mortgage refinancing dried up. In agriculture, generally mild weather allowed farmers to make good progress harvesting crops.

Retail Many District retailers reported an uptick in their sales in recent weeks, and contacts at general merchandise and building supply stores said that the pace of their sales

quicken. A manager at a department store in the Greensboro, N.C., area said the local economy had stabilized following textile plant layoffs earlier in the year and store management expected holiday sales to be at or above last year's level. A big-box retailer, however, noted that sales patterns showed consumers were living paycheck-to-paycheck now that the effects of this summer's tax refunds were lessening. Automobile dealers reported mixed sales. A dealer in Charleston, W.V., said that, despite high manufacturer rebates, vehicle sales were down over the last month. In contrast, dealers in Maryland and central North Carolina registered higher sales.

Services Services businesses reported generally higher revenues in the weeks since our last report. A Baltimore, Md., financial services firm told us they had seen "strong and consistent" interest in their services and expected to increase hiring in the first quarter of 2004. Professional, scientific, and technical services firms located outside Washington, D.C., saw steady customer demand. In central Virginia and central North Carolina, revenues at healthcare systems rose, and in Maryland, environmental services firms experienced higher demand. A freight transportation business serving the District said demand for its services had increased over the past month as businesses rebuilt inventories.

Manufacturing The District's manufacturing industry expanded at a brisk pace in October. The expansion was particularly broad-based-firms in almost all sectors reported higher shipments. A contact at a Virginia lumber mill said business "bounced back" in recent weeks, and a counterpart at a mill in North Carolina told us that new orders were good and that much-needed capital improvements had been planned for next year. In addition, a manufacturer of industrial machinery in West Virginia described economic conditions in Central Appalachian coal fields as "favorable" and said customers were projecting higher capital investment in new mining equipment. There were, however, a few weak spots in the otherwise upbeat reports-a furniture manufacturer in North Carolina, for example, said that office furniture sales were still very much "in the doldrums." And a textile producer in North Carolina reported that increased imports from China had caused his firm to shut down two plants and eliminate 615 jobs recently. Manufacturers continued to tell us that they were doing very little hiring and that wage growth remained modest.

Finance District bankers said that loan demand was flat in recent weeks as higher commercial lending was offset by slower residential mortgage lending. Commercial lending was boosted, in part, by growing confidence in the strength of the economy-a Richmond, Va., banker said his clients were "ready to pull the trigger" to borrow funds and invest in their businesses again. While commercial bankers reported little change in credit standards in lending to businesses, there was the sense that lenders were aggressively pursuing new lending opportunities. Residential mortgage lenders were not as upbeat, reporting that mortgage refinancing activity had essentially dried up. Several contacts noted that mortgage lending for home purchases was generally stable, however, and expected mortgage lending to pick up over the next six months.

Real Estate Residential real estate agents generally reported that home sales remained strong although the pace of growth had slipped a notch since our last report. A realtor in Chevy Chase, Md., said properties were selling at or above asking prices and that condominiums and co-op properties were "extremely hot" sellers. A realtor in Virginia Beach, Va., described the market there as "wide open" with sales prices escalating 20 percent a year, and an agent in Odenton, Md., told us that her agency exceeded its sales goal in October by \$2 million. But a few signs of cooling emerged in the District. An agent in

Charlotte, N.C., said that while September home sales set a record, October closings had slowed as credit problems kept some potential homebuyers from securing loans. In addition, an agent in Greensboro, N.C., characterized home sales there as "slower" because of business closings and job layoffs.

Commercial realtors reported a "noticeable increase" in office and retail leasing activity during recent weeks. Contacts throughout the Fifth District noted that clients were "coming off the sidelines" and moving ahead with plans that had been on the shelf for months. Realtors classified recent activity into two categories: existing clients expanding their current capacity and new small businesses seeking space to begin their operations. Retail space in the Richmond, Va., market remained in high demand-a contact there reported that the latest retail vacancy rate remained unchanged despite the addition of over two million square feet of retail space in recent months. Leasing activity in industrial space remained sluggish, but one contact in Huntington, W.V., did note that there had been some recent interest from manufacturers.

Tourism Tourism remained mixed in October and early November. The coastal areas along the Outer Banks of North Carolina and at Virginia Beach, Va., have still not fully recovered from the damage caused by Hurricane Isabel in September and travel to those destinations was off. A contact on the Outer Banks said that recreational fishing, in particular, was down since Hurricane Isabel had damaged some chartered fishing boats and fishing piers. She noted, however, that progress had been made in restoring the damaged highway to Cape Hatteras. Contacts in mountainous areas in Virginia and West Virginia noted stronger tourist activity, adding that they were almost booked to capacity for the Thanksgiving holiday week.

Temporary Employment District temporary employment agencies reported somewhat stronger demand for workers in recent weeks, attributing the strengthening to a pickup in the economy. While most agents were optimistic that demand would strengthen further over the next several weeks, an agent in Gastonia, N.C., believed his agency would see lower demand for workers with the approaching holiday season and end-of-year budget freezes at some companies.

Agriculture Generally mild and dry weather in October and November enabled farmers to make good progress in harvesting crops and preparing fields for late fall plantings. Clement weather facilitated the harvesting of peanuts, cotton, soybeans, and sweet potatoes in North Carolina and helped farmers wrap up their corn harvest in Maryland. In addition, corn harvesting was nearing completion in Virginia and in West Virginia, and apple harvesting was completed in South Carolina.

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Sixth District--Atlanta

Summary: Reports from the Sixth District indicated that the pace of economic growth was stable during October and early November. Except for the autos sector, retailers were upbeat about October sales and holiday prospects. District residential housing markets continued to post steady growth, while commercial real estate markets noted small improvements. The tourism industry reported a rise in visitors and a positive outlook for the winter season. Reports on the financial sector varied. Small improvements were noted in the industrial

sector as manufacturers continued to proceed cautiously. Employers remained reluctant to add employees until business had firmed. Prices were characterized as stable overall.

Consumer Spending: According to District merchants, sales growth during October was generally positive. Retailers' expectations for holiday sales were more upbeat than in earlier reports, and some stores increased their orders. Most retailers agreed that inventories were better managed than at this time last year. However, discounting remained widespread and reports on early November sales were mixed, attributed to unseasonably warm weather.

October sales were disappointing, according to District auto dealers. Contacts noted that, as inventories of highly promoted 2003 vehicles dwindled, bargain-seeking buyers were hesitant to purchase new model cars and trucks that often carried less generous incentives. However, several dealers were encouraged by recent strong floor traffic. Reports on used car sales were mixed, with some car dealers continuing to struggle with weak demand and others reporting lower inventory and greater participation at regional auctions.

Real Estate: District single-family housing markets were generally stable. Homebuilders continued to report that new home construction and sales were flat to slightly up, while most Realtors said that October home sales were near year-ago levels but that there was some weakening in early November. Contacts anticipate home sales and construction will remain steady through year-end; builders expect an increase in new home construction during the first quarter. Nonresidential construction remained weak in October, but contacts noted that District retailers have begun to move forward with expansion and renovation plans. Office and industrial space continued to recover slowly, with small improvements in leasing reported.

Manufacturing: Manufacturing activity improved in some sectors, but few firms built inventories or added to permanent employment rolls. Some managers continued to note excess capacity and underutilized employees. An apparel producer pared back inventories and laid off workers because it missed revenue targets. More positively, the lumber business was booming, reportedly because of temporary supply constraints and ongoing strong demand. Inventories were reportedly difficult to replenish in the roofing business because product was moving so quickly. A military contractor noted increases in new orders. Expansions at vehicle production facilities were well underway, with another round of hiring occurring.

Tourism and Business Travel: Improvement in the District's tourism and hospitality industry continued during October, according to most reports. Traffic at amusement parks and tourist attractions in central Florida rose, stimulated by deals and discounts. Tax collections in central Florida improved, and passenger traffic through Orlando International Airport increased by nearly 3 percent in the fiscal year that ended in September compared with 2002. Expectations for the winter tourist season are reportedly high in south Florida, and advance bookings are encouraging. Miami's convention industry improved in October, and the cruise industry was reportedly "going strong" and hiring workers.

Banking and Finance: Reports from the financial sector were mixed. Residential mortgage refinancing activity slowed considerably across the District. Bankers reported that past dues increased in home mortgage portfolios, but problem loans and past dues remained manageable overall. Deposit growth held steady or improved in most of the region compared with last year. One contact noted that venture capital firms were beginning to

evaluate start-up business prospects. Commercial loan demand, however, remained weak overall.

Transportation: District trucking contacts noted an upward trend in freight businesses during October and early November. Smaller trucking companies that had previously fought bankruptcy reported stronger demand and higher margins, with some upgrading their fleets. Despite sluggish growth in manufacturing, transportation business was up overall because of strong demand for building materials and seasonal freight, according to most contacts.

Wages and Prices: Most reports indicated that most firms remained reluctant to add full time permanent employees. Businesses want stable orders before they will hire, according to one contact. Some firms, particularly manufacturers, continued to cut jobs through technological improvements and increased productivity. Companies also continued to rely on outsourcing and temp agencies to fill labor slots because of high benefit costs.

Prices remained stable, with a few exceptions. Firms continued to note increasing health care costs; however, one report indicated that the rise in health care costs is likely to slow somewhat next year. Lower fuel prices aided District transporters.

Agriculture: Most District farmers benefited from favorable weather patterns and higher prices in October. Soil conditions were good, and dry weather facilitated fieldwork activities. Market reports were positive from cotton, peanut, and citrus growers in particular.

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Seventh District--Chicago

Summary. Seventh District economic activity improved modestly again in October and early November. Consumer spending softened slightly from the late summer pickup, but was still stronger than earlier in the year. Business spending generally continued to increase, and firms were again adding temporary workers. Housing markets remained very robust, and weak commercial real estate markets showed a few signs of recovering. Manufacturing activity continued to rise, with several key industries again seeing strong new orders. Overall lending activity was relatively flat. Upward price pressures at the retail level remained largely subdued, but more producers reported increasing leverage over pricing. As the harvest neared completion, District corn yields were up from a year ago while soybean yields were down substantially. However, higher agricultural prices helped soften the impact on net farm income.

Consumer Spending. Reports on consumer spending were mixed. Retailers said that sales softened slightly in October and early November, but some said weather may have hampered sales. Inventories were generally in line with sales expectations, though one merchant noted that they were trending on the high side. Expectations for the upcoming holiday shopping season were mixed. Some merchants are expecting little improvement from last year, but the majority of retail contacts are anticipating a stronger season. District auto dealers said that light vehicle sales weakened since our last report. According to one dealer, "sales were good, now they're just average." Many dealers had re-stocked their lots in September and October after a strong sales surge during end of model-year clearance events. Most dealers were comfortable with current stocks, but some were concerned that softer sales may leave them with more vehicles than they would like. Tourism activity was largely unchanged from our last report.

Business Spending. Business spending appeared to increase again in October and early November. The temporary help services industry continued to improve markedly. One large firm has recorded several sequential weeks of strong growth in worker assignments, as well as increases in average hours per assignment. This firm said that the industry was "unambiguously" in the midst of a recovery. Moreover, many contacts suggested that the pickup in temporary help demand was widespread across industries, occupations, and regions. Still, on the whole, many of our business contacts suggested that firms remained reluctant to add permanent hires, although more were considering it. Capital spending plans have changed little in recent months. While many businesses continued to talk about capital expansion, much of their spending was again for repair, maintenance, and replacement of existing equipment.

Construction/real estate. Residential real estate markets remained very robust; and while generally weak, commercial markets showed some signs of firming. Many contacts said that low mortgage interest rates continued to drive prospective homebuyers to view properties. The first-time-buyer segment was still strong, and contacts in some areas said that the luxury segment was picking up as well. By contrast, contacts in a few areas said that the middle market had softened somewhat. On balance, commercial real estate activities remained soft, but there were isolated reports of improvement in some segments. A large office property holder in Chicago said that the number of property showings and leases in process increased significantly in October and November, after falling off during the summer. According to this contact, many prospective tenants were speculating that the office market was "near the bottom," and were trying to lock in leases before rents began to rise. Indeed, rents have stabilized in many areas. However, tenant improvement costs were described as "huge" by one contact, and still increasing. There were also a few reports of firming demand for light industrial space, though here too, vacancies remained elevated and pricing was weak.

Manufacturing. Overall manufacturing activity continued to rise in October and early November. A contact with one large producer of household appliances said that shipments continued to pick up, buoyed by strong housing activity and inventory rebuilding by retailers. Nationwide demand for light vehicles reportedly firmed in November, following soft sales in September and October that left inventories higher than desired, and prompted some automakers to raise incentives again. District automakers reported no major changes to fourth quarter production schedules. Orders for medium-duty trucks remained strong, and one contact said that new orders for heavy trucks increased as freight volumes picked up. In addition, many trucking firms were said to be making long-delayed purchases of replacement rigs. Orders for other heavy equipment, particularly construction equipment, were up as well. Machine tool makers reported increased orders with one reporting that his firm was "busier than at any other time in the last five years." Contacts said that domestic demand for steel products was generally flat, but domestic producers were satisfying a greater proportion of that demand. Strong housing activity nationwide continued to boost gypsum wallboard shipments, which one industry contact said will likely set a new record in 2003.

Banking/finance. Overall, lending activity changed little in recent weeks. Household lending was mostly flat, though one banker noted an increase in home equity lending. Mortgage refinancing applications remained well below levels reached earlier in the year, while new originations were fairly strong. One lender said that intense competition for a

dwindling pool of potential mortgage borrowers was squeezing margins. Consumer credit quality was said to be improving with declines in both delinquencies and defaults. Commercial loan demand remained weak and loan volumes were relatively flat. One banker said that merger and acquisition activity continued to rise from low levels, which this contact said was evidence of a general pickup in economic activity. Overall business credit quality also improved modestly.

Prices/costs. Upward price pressures generally remained subdued, though more firms reported improvement in pricing power. Producers of steel and some heavy equipment announced price increases from low levels. Prices for gypsum wallboard increased in recent months, but were generally flat from a year earlier. By contrast, a large manufacturer of home appliances indicated that prices continued to decline, primarily because of import competition. Contacts again said that rising energy, insurance, and employee benefits costs were pressuring margins. Reports provided little evidence of widespread price increases at the retail level as merchants continued to use heavy discounts to move merchandise.

Agriculture. With the harvest nearly complete, corn yields have exceeded expectations, while soybean yields are coming in below previously lowered expectations. Some farmers who had overestimated soybean yields ended up pre-selling a larger-than-desired portion of their crop at lower prices. As a result, these farmers did not fully benefit from the recent rise in spot soybean prices. However, crop insurance payouts will help offset some of the lost income. Corn prices were relatively flat, but higher ethanol production provided an outlet for farmers to sell corn at a better return. Many farmers were able to leave crops in the field longer to dry, which helped offset higher costs of drying after harvest. Contacts suggested that some farmers were sharing farm equipment to trim capital costs. Farmland values and rental rates continued to rise. Concerns about loan repayments were alleviated somewhat by rising agricultural prices and government loan programs. Drought conditions persisted in the western portion of the District.

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Eighth District--St. Louis

Business activity in the Eighth District continues to show signs of improvement, especially in manufacturing, although reports of plant closings, downsizing, and layoffs continue. Firms in the services sector have reported improvement in business activity and plans for expansions and new hiring. Retail sales in September and October increased over 2002 levels, while auto sales declined over the same period. Residential real estate markets in the District continue to be robust, while commercial markets remain relatively weak. Overall lending activity at a sample of District banks experienced little change over the past three months.

Consumer Spending

Contacts reported that retail sales in September and October were slightly up, on average, over year-earlier levels. More than 50 percent of the retailers surveyed noted that sales levels met their expectations. About 30 percent of the contacts reported that sales were below what they had anticipated. Home fashions and furnishings, electronics, seasonal items, consumables and edibles, jewelry, apparel, footwear, and sportswear were strong sellers, while electrical appliances, toys, personalized items, health and beauty products, winter clothing, and outerwear were moving more slowly. About 60 percent of the retailers

surveyed noted that inventories are at desired levels; the rest reported excess inventories. Retailers are very optimistic about the next two months, with about 80 percent of the contacts expecting sales to increase over 2002 levels.

Car dealers in the District reported that, compared with last year, sales in September and October were slightly down, on average. Most contacts attributed this decline to high summer sales because incentives were offered, effectively transferring sales to the summer from the fall. More than 35 percent of the car dealers surveyed noted that sales of used and low-end cars have increased, while a small percentage reported higher sales of trucks and SUVs. About 60 percent of the contacts reported increased use of rebates, and 25 percent noted that acceptance rates for finance applications have increased. More than 50 percent of the contacts reported that their inventories are at desired levels, while another 30 percent noted excess inventories, particularly for new cars. The car dealers surveyed remain cautiously optimistic about the next two months, with more than 60 percent of the contacts expecting sales to remain flat or to increase slightly over last year.

Manufacturing and Other Business Activity

The Eighth District's manufacturing sector continues to show modest improvement. Several reports of plant openings, product line expansions, increased spending on research and marketing, and new jobs created have continued since our last report. Manufacturers in the auto and automotive, power generation, industrial cleaning, pharmaceutical, foam, sportswear, footwear, packaging materials, and food industries were among those who announced such moves. Firms in the telecom equipment, coal, and brewing industries have reported higher sales volumes and increased profits. State tax incentives and aid for employee training have been increasing for manufacturers in the auto, biotech, and food industries.

Despite the positive outlook, there have also been several announcements of plant closings, downsizing, layoffs, higher operating costs, low sales volumes, and negative profits; affected industries include electronics and electronic components, tools, instruments, clothing, linen, food, and chemicals. In the services sector, firms in the entertainment, investment banking, debt collection services, health services, and automated personnel services industries reported improvements in business activity and plans for expansion and new hiring. Firms in the customer support systems, credit card systems, data management, savings and loans, and airline industries reported reduced business activity and plans for layoffs. Higher utility prices, fewer orders, weaker production, and increased health insurance costs are among the factors reported as hindering economic activity in the District.

Real Estate and Construction

Residential real estate markets remain strong in most of the District. September year-to-date housing sales in the Memphis area increased by 9.3 percent compared with the same month last year. Housing sales continue to be strong in the Little Rock area, with a year-to-date increase of 8.4 percent in September, while Louisville had an increase of 12.0 percent for the same period. Residential construction is also doing well, with year-to-date single-family housing permits up in virtually all of the District's metropolitan areas compared with September 2002. In the greater St. Louis metropolitan area, for example, year-to-date permit levels increased by 2.0 percent. Commercial real estate markets continue to struggle in most of the District. In the St. Louis area, the overall office and industrial vacancy rates increased slightly in the third quarter to 15.7 percent and 7.3 percent, respectively. Contacts in the Memphis area expect the commercial market to improve somewhat during the second half

of 2003 and first half of 2004. The recovery in commercial construction is still slow in most of the District. One bright spot is St. Louis, where hospital construction is booming.

Banking and Finance

A recent survey of senior loan officers at a sample of District banks indicated little change in the overall lending activity over the previous three months. Banks' credit standards for commercial and industrial (C&I) loans remained generally unchanged for large and small firms. The demand for C&I loans over the past three months was unchanged according to responses. Over the same period, inquiries for future C&I loans decreased moderately. Credit standards for residential mortgage and consumer loans remained generally unchanged over the past three months; meanwhile, the demand for residential mortgages was moderately weaker and the demand for consumer loans was basically unchanged. The survey included questions on the banks' participation in the secondary market for C&I loans over the past two years. Banks reported that 10 percent or less of their share of adversely rated loans was sold in this market, predominately to U.S. commercial and investment banks.

Agriculture and Natural Resources

Recent weather has been favorable for harvesting crops and has improved pastures. Harvesting of corn is nearly completed, with only Indiana's corn crop being less than 90 percent harvested. Harvesting of soybeans, however, is lagging in Kentucky, Missouri, and Tennessee. Harvesting of sorghum is nearly completed in Arkansas and Mississippi, but in Illinois harvesting lags behind its normal pace. The cotton harvest is almost complete in Mississippi. Winter wheat planting is on schedule, and emergence is ahead of normal, except in Illinois. October yield estimates of corn, winter wheat, hay, and burley tobacco surpass last year's yields, whereas sorghum estimates are lower, and soybean estimates are mixed.

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Ninth District--Minneapolis

Overall Ninth District economic activity increased from October through mid-November. Residential real estate, manufacturing, agriculture, consumer spending and tourism grew. Meanwhile, commercial real estate, mining and energy were level. Labor markets were stable. Wage and price increases were generally moderate; however, significant price increases were noted in plywood, natural gas and beef.

Construction and Real Estate

Commercial construction and real estate activity were somewhat level, and signs of improvement were noted. Representatives of two commercial real estate firms in the Minneapolis-St. Paul area expect that slightly more office space will be filled than vacated in the upcoming year, for the first time since 2001. Several new restaurant projects were planned in Sioux Falls, South Dakota. However, a commercial contractor in Montana noted recent slow building activity in the western part of the state.

Home building and residential real estate activity were strong. Permits for residential construction in the Minneapolis-St. Paul area were up 14 percent in October compared with a year ago. October home sales were strong for mid-priced homes, including townhouses, in Minneapolis-St. Paul, according to a representative of a residential construction company. A

home builder in the Upper Peninsula of Michigan noted strong activity during the fall season. Recent Montana residential real estate activity was healthy for both existing and new homes, according to a bank director, and refinancing activity was generally steady.

Consumer Spending and Tourism

Overall retail sales grew modestly, while prospects for holiday sales were generally optimistic. A major Minneapolis-based department store and discount retailer reported same-store sales in October were up almost 2 percent compared with a year ago, while early November sales were above plan. A Minneapolis restaurant manager noted that companies have increased their spending plans for holiday parties compared with the last few years. Mall managers in Montana and greater Minnesota reported sales up about 4 percent in October over a year ago and are optimistic for the holiday season. In contrast, mall managers in the Minneapolis-St. Paul area noted slow to level traffic and sales in October, but expect gains in holiday sales.

Auto sales were softer in October than in September, as manufacturer incentives decreased. A representative of an auto dealers association in Minnesota noted that showroom traffic dropped during the early part of October. Meanwhile, a representative from a dealers association in North Dakota reported slow October sales; however, the year overall was still considered solid.

Tourism activity was generally solid. Fall tourism business in northwestern Wisconsin was strong due to good weather and fishing conditions. Sales of deer hunting licenses were up 14 percent in Wisconsin compared with last year, but remained down from 2001 levels. In the Black Hills area of South Dakota fall tourism traffic was down slightly, but overall sales were up relative to last year. Recent activity was fairly strong in Montana, including increases at Glacier National Park following a slow summer due to fires, according to a tourism official. In addition, inquiries for Montana winter activities were up compared with last year.

Manufacturing

Manufacturing activity increased. An October survey of purchasing managers by Creighton University (Omaha, Nebraska) indicated overall increased manufacturing activity in the Dakotas and Minnesota. In addition, preliminary results of the Minneapolis Fed's annual (November) business conditions outlook poll revealed that manufacturers expect increased sales, employment and capital expenditures in 2004. A beef processing company recently announced plans to open a plant in South Dakota. A Minnesota circuit board maker is increasing employment. A computer component producer will reopen a western Wisconsin photo-etching facility in January. However, a compressor manufacturer recently announced plans to close a factory, and a shoemaker will close a manufacturing plant in western Wisconsin.

Energy and Mining

Activity in the energy and mining sectors was level. Late October district oil and natural gas exploration amounts were nearly the same as in late September. Most major district operating iron ore mines continue to produce at near capacity. However, a major mine in Montana expected slight decreases in output during the fourth quarter compared with the third quarter.

Agriculture

Agricultural economic conditions improved. Lenders responding to the Minneapolis Fed's third quarter (September) agricultural credit conditions survey expected that overall agricultural income, capital spending and household purchases would rise in the fourth quarter. The U.S. Department of Agriculture forecast increased corn and sugar beet production in the district and decreased soybean production in 2003 compared with 2002. The USDA expects corn, soybean, wheat and beef prices to remain strong into 2004. In addition, preliminary results of the Minneapolis Fed's business outlook poll revealed that farmers and ranchers expect increased sales and capital expenditures in 2004.

Employment, Wages and Prices

Overall employment activity was stable with a mix of expansions and layoff announcements. Recent expansions included a window maker that recently announced plans to build a plant in Minnesota that will create 135 jobs. An economic development official said that two Eau Claire, Wisconsin employers are considering expansions that would add over 100 jobs to the area. Temporary employment agencies in Sioux Falls, South Dakota noted that demand for temporary positions was strong. In contrast, the closing of a call center in Montana will result in 100 job cuts. A Minnesota computer storage systems company eliminated 25 jobs. A retailer in North Dakota will close its doors, affecting 48 full- and part-time employees. Retailers are generally planning to hire seasonal workers at the same level as a year ago.

Some signs of future increases in hiring were noted. Preliminary results of the Minneapolis Fed's business outlook poll show that 34 percent of respondents expect to increase employment at their firms over the upcoming year, while 16 percent plan to decrease jobs in 2004. Businesses in Bozeman, Montana are generally expecting to begin hiring again over the next 12 months, according to a recent survey.

Wage and salary increases were moderate. Almost 80 percent of respondents to the Minneapolis Fed's business outlook poll expect that wages and salaries at businesses in their communities will increase between 2 percent and 3 percent. Only 4 percent of respondents predict wages and salaries to grow 4 percent or higher.

Price increases were modest, except for significant increases in oriented strand board, natural gas and beef. More than half of respondents to the Minneapolis Fed's business poll predict that prices for their products and services will remain unchanged, while 30 percent expect increases next year. Prices for plywood have more than doubled due to strong demand and current supply constraints, according to a Minnesota homebuilder. Minnesota consumers are expected to pay nearly 15 percent more for natural gas in November, according to a survey of the state's utilities. Beef and veal prices increased over 15 percent in October from September.

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Tenth District--Kansas City

The Tenth District economy expanded further in October and early November, and business contacts were upbeat about future conditions. Retail sales continued to rise, and manufacturers reported another sizable increase in activity. In addition, the housing and energy sectors remained strong, and the agricultural sector continued to improve. While commercial real estate was still weak, contacts were somewhat more optimistic than in

previous surveys. Wage and price increases generally remained modest, but employee benefit costs and some materials prices continued to rise.

Consumer Spending. Retail sales in the district improved further in October and early November and were at or above year-ago levels at most stores. Among product categories, sales of home furnishings were particularly strong, while apparel sales were somewhat soft. Virtually all store managers expect holiday sales to be strong, and many stores plan more seasonal hiring than in recent years. At the same time, retailers generally have not increased store inventories as much as in past years, saying they plan to rely more heavily on just-in-time inventory management. Sales of motor vehicles also improved somewhat in most of the district in October and early November and were around year-ago levels except in Colorado, where sales remained sluggish. Despite aggressive manufacturer incentives, most dealers reported that sales improved more for used cars than for new cars since the last survey. Nearly all auto dealers expect vehicle sales to continue to improve in coming months. Tourism activity in the district was mixed in October and early November. Convention business in Denver remained strong and airport traffic was up in most cities. However, activity at some leisure destinations was weaker than a year ago. Tourism contacts were generally positive about the winter travel season, as advance bookings were above year-ago levels in most locations.

Manufacturing. District manufacturing activity continued to expand strongly in October and early November, and expectations for future output improved further. Plants generally reported higher levels of capacity utilization than in the previous survey, and the volume of new orders continued to rise. Most firms cited longer workweeks and increased productivity as the primary means of boosting output since the last survey, while several firms also reported modest increases in hiring. One manufacturer of chemical products also noted that, due to strong recent increases in demand, it would continue operating several plants it had previously planned to close. Some manufacturers reported slight difficulties obtaining steel, aluminum, and chemicals, but they generally do not expect these difficulties to continue. Capital spending was above year-ago levels for the second straight survey following several years of shrinking investment. A substantial majority of plant managers expect factory activity to continue to rise in the months ahead, and many plan further investment in plant and equipment.

Real Estate and Construction. Residential real estate activity in the district remained strong in October and early November, and commercial real estate contacts expressed increased optimism that office markets were bottoming out. Single-family housing starts maintained a solid pace in most district cities, with starts of entry-level homes remaining quite strong in most of the district. Contacts in a few cities also reported a slight uptick in luxury home construction, but high-end building remains weak in most areas, and particularly in Colorado. Most builders expect single-family construction to edge higher in coming months. Several builders again reported slight difficulties obtaining plywood, but they reported no other material availability problems. Home sales remained near record levels in most of the district in October and early November but eased slightly from the rapid growth experienced during the summer. Most realtors expect sales to remain strong for the rest of the year. Mortgage lenders reported a decline in overall mortgage demand, primarily due to another sharp drop in refinancings. Lenders generally expect refinancings to continue to edge lower and for home purchase loans to hold steady in the months ahead. Most commercial real estate markets in the district remained weak in October and early November. Sales and absorption of office space were generally flat, and vacancy rates were

largely unchanged. However, the outlook for office markets in some district cities has improved since the previous survey. Several commercial realtors expect vacancy rates to edge down in coming months and for office construction to pick up slightly.

Banking. Bankers report that loans and deposits both increased slightly since the last meeting, leaving loan-deposit ratios largely unchanged. Demand edged up for commercial and industrial loans, commercial real estate loans, and home equity loans. Demand for home mortgage loans fell slightly, reflecting the slowdown in refinancing activity, while demand for consumer loans and agricultural loans remained unchanged. On the deposit side, all types of accounts rose except large CDs, which held steady. All respondents left their prime lending rates unchanged since the last survey, and most banks also held their consumer lending rates steady. Lending standards were generally unchanged.

Energy. District energy activity was strong in October and early November, as energy prices remained high. The count of active oil and gas drilling rigs in the region was about even with the previous survey and over 50 percent higher than a year ago. Several energy contacts reported that a shortage of drilling rigs had boosted the cost of renting equipment in recent months. Most contacts anticipate drilling activity will remain strong through the winter, as oil and gas prices are expected to stay elevated.

Agriculture. Agricultural activity continued to strengthen in the district in October and early November. Cattle prices posted new record highs, and producers took advantage of the strong prices by marketing more cattle than expected. The fall crop harvest was nearly complete, and areas that enjoyed late-summer rains were reporting above-average corn yields. Fall rains have also improved winter wheat crop conditions. In general, pasture conditions across the district were fair, and forage supplies were adequate for winter. On the negative side, the summer drought cut soybean yields to below-average levels, and pockets of financial distress persisted in several areas that experienced prolonged drought.

Wages and Prices. Wage and price increases generally remained modest in October and early November, but employee benefit costs and some materials prices continued to rise. Labor markets were still slack around the district, although a few manufacturers reported difficulties finding skilled mechanics and mechanical engineers and some energy firms had problems finding skilled rig workers. Layoff announcements continued to ease, and a number of businesses indicated plans to increase hiring. Wage increases remained modest, with most firms continuing to offer only cost-of-living increases. However, benefit costs continued to rise rapidly. Several employers reported shifting more of the cost of health insurance on to employees, and some small businesses have eliminated health care benefits entirely. As for prices, retailers reported little change from the previous survey and they expect prices to be flat to slightly higher over the holiday season. However, some business contacts worry that the lack of inventory building by retailers could result in upward price pressures if holiday demand cannot be satisfied by just-in-time ordering. Some builders and manufacturers reported rising plywood, brick, cement, and steel prices, and they generally expect some modest price increases to continue. Manufacturers again reported a firming in finished goods prices, and they increasingly expect some ability to raise their output prices in the future.

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Eleventh District--Dallas

Eleventh District economic activity continued to improve slowly in October and the first half of November. Many contacts expressed more optimism about the outlook relative to six weeks ago. However, most contacts remain cautious and say they are reluctant to increase employment or make investments until the persistence of the recovery is more certain. Still, it appears that some are laying plans in preparation for prospective investment and hiring in the first half of 2004.

The service sector continues to strengthen, while manufacturing activity is recovering more slowly. Retail sales growth continues to be uneven but is showing signs of strengthening. Construction and real estate markets were mostly unchanged over the past six weeks. There has also been little change in energy activity or in the condition of the financial services industry. High prices and strong demand are boosting district agriculture.

Prices. Overall price pressures remain mixed. Energy prices have been volatile. Contacts say inventories are generally considered ample for oil and oil products, and prices are trending downward. Natural gas prices are elevated relative to that of oil despite fairly ample inventories. Prices for petrochemicals and plastics generally remain linked to changes in the price of oil and natural gas feedstock. Most manufacturers indicate no change in price pressures. Prices are up for primary metals but continue to decline for apparel. Retailers continue to report that they have no pricing power.

Labor Market. Labor markets are still slack but there are signs of pending improvement. Layoffs have slowed. There are scattered indications of hiring and reports of rising wages. Insurance, particularly health insurance, remains a widespread cost concern, and a few contacts have suggested that these costs are adding to the reluctance to add new workers.

Manufacturing. Orders for high tech manufactured products continue to grow at a moderate to strong pace. Contacts note that there is still a lot of skepticism about the durability of the recovery, but one respondent said that about 20 percent of the industry is growing quite fast. Computers and telecommunications equipment were reported to be growing particularly well. Job growth continues to be slowed by productivity growth and outsourcing.

Increased mining and drilling activity has stimulated demand for fabricated metals, according to contacts, who say demand is up from a year ago. Still, activity is below expectations and inventories are higher than necessary. Demand for primary metals has remained stable and inventories are in good shape. Manufacturers of stone, clay, and glass report continued solid business, with October deliveries higher than in September. Demand for lumber products is seasonally slower, and inventories are "on the heavy side" in part because customers are keeping their inventories as thin as possible. Demand for paper products has been flat over the past couple of months, which is weaker than was expected. Demand for apparel and food products has been mostly unchanged over the past six weeks.

Refiners cut back production seasonally in October, performing maintenance and switching production from gasoline to heating oil. Demand for petrochemicals picked up temporarily in September, which most contacts attribute to inventory rebuilding. The surge ended in October when demand growth fell back, returning producers to overcapacity and weak pricing power. One contact expects weak conditions to continue until 2006.

Services. Transportation activity has increased. The airline industry is picking up from a

very low base, with increased bookings, load factors and yields. Rail shipments also continue to show strength. Contacts plan to add more people and equipment, but rail capacity will be a limiting factor. The trucking industry is less optimistic about the outlook because new rules for safety and security scheduled to go into effect in January are expected to raise prices and make it more difficult to hire drivers.

Demand for legal services remains unchanged overall, but contacts are more optimistic about future activity. Demand for litigation and bankruptcy work continues to be strong. There has been gradual improvement in corporate/transactional activity and "chatter" has begun about IPOs. Contacts say the potential of interest rate hikes has spurred some renewed real estate activity.

The accounting industry reports improving demand. The turmoil in the accounting industry is still stimulating business; regulatory work remains the strongest area. Merger and acquisition activity has picked up some, and confidence about future transactional work has improved. There is still not a lot of IPO activity, and the energy industry has provided less work than expected.

Demand for temporary staffing continues to be slow and steady, but contacts are more optimistic about opportunities that are "on the horizon." Light industrial and automotive manufacturing work has strengthened, but consumer manufacturing and call center activity remains weak. Demand for workers from medical product manufacturing and retail is more active than this time last year. Contacts say only a small percentage of call centers are moving operations overseas and they believe it "is not as big a play as the media makes it out to be."

Retail Sales. Retail sales reports are still uneven, but most contacts are becoming increasingly confident that sales growth is very slowly improving. Some retailers remain cautious because they believe that job growth is too weak for demand growth to be sustainable. Automobile sales remained weak and are expected to continue to "limp along."

Financial Services. Lending growth is slowly increasing, but competition remains stiff, keeping interest rates and net interest margins low. Contacts reported no change in asset quality. Refinancings have stopped almost completely, according to lenders; while new mortgage sales continue, contacts do not expect much growth in the near term. Consumer and auto lending remain the strongest categories. Commercial and industrial lending are about the same as the last survey, with increased traffic and interest but still not a large uptick in activity. Deposit growth continues to be above target, and contacts expect these conditions to hold in the near term.

Construction and Real Estate. Fundamentals remain soft for multifamily and office markets, but respondents are more optimistic about prospects for improvement in early 2004. Contacts say the multifamily market may have finally hit bottom, but rental rates continue to edge down, and concessions such as free rent are still the norm. Demand for office space is still lackluster, and vacancies are high, putting downward pressure on rents. Still contacts say they are more optimistic about prospects for the office market than they were a few weeks ago. Investment activity in the office market continues to swell, with a record amount of capital available.

Contacts were more guarded about their outlook for the single-family sector, citing concerns about the slow pace of job growth. Existing home sales are at good levels, but contacts are

concerned about rising home inventories in several areas. Builders say demand for new homes is steady, but competition is rising, putting pressure on margins and profitability. While new home prices are unchanged, builders are offering homebuyers even more incentives.

Energy. The rig count has been roughly unchanged since May. There continues to be excess capacity in onshore rigs, which is keeping drilling costs competitive. In Texas, drilling remains mostly in the hands of independents, on land and at relatively shallow depths. The Gulf of Mexico remains a big missing element in the current drilling picture. For further development in the Gulf, producers need to drill in deeper water to find new formations, and gains are being slowed by longer lead times, financial risks, technological impediments and a lack of equipment. International drilling is picking up, but most of the activity is in the lower-risk regions. A number of liquified natural gas (LNG) projects are being developed overseas with an intent to sell the LNG for use in the United States.

Agriculture. Texas cotton production is below normal levels because bad weather in the summer and early fall damaged crops in the Southern High Plains. Cotton prices, however, are at the highest level in several years because global cotton supplies are tight and demand has picked up, particularly from China. Cattle prices also are high, leading to very active cattle markets over the past six weeks. The increase in beef prices has been fueled by a ban on Canadian livestock imports, as well as rising demand for beef and tight domestic cattle supplies. Some contacts expressed concern over the high prices, however, noting that the price levels are not sustainable. The price increase has pushed up ranchland values and enabled ranchers to pay down debt.

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Twelfth District--San Francisco

Summary

Twelfth District contacts reported solid growth in the economy in October and early November. Respondents noted little upward pressure on prices for most consumer goods and services. Increases in wages and salaries also were limited, and many District businesses reported shifting rising health benefit costs to employees. Consumer spending in the District, excluding auto sales, remained solid in recent weeks, boosted by preholiday discounting and an early start to the winter ski season. Contacts reported that stronger domestic growth and a weaker dollar increased demand for many District manufactured goods and agricultural products. District housing markets remained highly active in recent weeks, and there were scattered signs of improvement in commercial real estate conditions. Bank contacts reported a pickup in deposits and business loan demand; mortgage lending remained at high levels despite continued contraction in refinancing activity.

Prices and Wages

District contacts reported little change in consumer prices in the recent survey period. Lumber and other building materials were the main exceptions to this trend; robust housing starts, rebuilding efforts in Iraq, expected rebuilding in Southern California following the fires, and higher export demand for materials reportedly contributed to the price increases. Slack labor markets damped wage increases in most sectors. However, some businesses reportedly have reinstated year-end bonus programs, albeit at modest levels. Regarding benefits, employers noted continued rapid increases in healthcare costs, with a significant

portion of the increase passed on to employees.

Retail Trade and Services

Reports from District retailers indicated consumer spending, excluding autos, was solid in October and early November. Preholiday discounting spurred robust sales at big-box retailers, and department store sales remained healthy. Despite steady sales growth in recent months, District retailers generally have kept inventories lean and have limited seasonal hiring. Automobile sales slowed further in October and early November; during the period dealer incentives dropped off and vehicle licensing fees in California increased. The recent slowdown in sales has left several District dealers with significant inventories, especially of domestic brands; dealers noted that new incentive programs will be rolled out over the next several weeks to work off accumulated inventories.

Consistent with solid consumer spending, the District's travel and tourism sector experienced a pickup in demand. Early snows and cold conditions in ski areas pushed up the start of the winter travel season in many parts of the District. In Hawaii, domestic visitor counts continued to grow. International visitor counts remain soft, but respondents expect the weaker dollar to boost international traffic in coming months; a weaker dollar already is credited for increased daily spending among recent international visitors. Hotel occupancy rates climbed and reservation bookings at restaurants grew in several District markets.

Providers of several business services also noted improved conditions. Contacts in advertising and software production reported a pickup in demand for their services, albeit from low levels. Demand for professional services, such as accounting, securities, and legal services stabilized, following months of contraction. The healthcare services sector continued to expand in many areas of the District.

Manufacturing

District manufacturing activity increased in October and early November. Orders for and sales of semiconductors rose solidly in recent weeks, further boosting capacity utilization and pushing prices on high-end chips up slightly. Makers of machine tools noted that stronger domestic conditions, several District infrastructure projects, and the weaker dollar pushed up demand for their products. Manufacturers of lumber, wood products, and other building materials also reported a pickup in demand, citing improved trade conditions, strong housing markets, reconstruction efforts in Iraq, and expected rebuilding in Southern California following the fires. Increased export demand benefited apparel makers, although several noted the continued shift of production to lower cost areas such as China. The pickup in demand among District manufacturers reportedly slowed the pace of job losses.

Agriculture and Resource-related Industries

District agricultural producers reported increased yields along with stronger demand. Agricultural exports continued to rise, with especially strong sales to EU countries. District natural gas providers reported a slight decline in prices and noted that natural gas storage facilities are fully stocked for the winter season.

Real Estate and Construction

Respondents reported considerable strength in District residential real estate markets during the most recent survey period. Sales of new and existing homes remained strong and new home construction continued at a brisk pace in many District markets. Respondents reported that home prices continued to rise in most regions. Contacts noted that the rebuilding of

homes destroyed by the recent fires in Southern California likely will add to the cost of building materials and wages for construction workers.

On the commercial side, there were scattered signs of improvement, although conditions overall remained weak. Office markets in Arizona and Nevada reportedly benefited from the movement of some businesses out of California. In other states including Oregon, Utah, and Washington, businesses began to renew rather than relinquish leases on existing office space.

Financial Institutions

Bank contacts in the District reported a pickup in deposits and demand for business loans during the most recent survey period. Although commercial and industrial lending remains at low levels overall, several contacts noted that the recent pickup represents the first increase in demand in this sector in some time. Credit quality remains high, with few loan delinquencies or defaults. Mortgage lenders report that they have mostly worked off the significant backlog of mortgage applications built up during the refinancing boom. However, origination of new mortgages for home purchases remained strong, keeping mortgage lending at high levels throughout the District.

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