



March 3, 2004

Summary of Commentary on Current Economic Conditions by Federal Reserve District

Summary

Prepared at the Federal Reserve Bank of Philadelphia based on information collected before February 23, 2004. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a representation of the views of Federal Reserve officials.

Economic activity continued to expand in January and February, according to information received by Federal Reserve District Banks. Growth was variously described as moderate in Boston, Philadelphia, Cleveland, Atlanta, Chicago, St. Louis, and Kansas City, firm in Minneapolis, sound in San Francisco, and showing signs of accelerating in New York, Richmond, and Dallas.

Consumer spending rose in most Districts. There were gains in sales of general merchandise in January and February in all Districts except St. Louis, which reported a slight decline. In contrast to the general improvement in merchandise sales, motor vehicle sales slowed in most Districts. Tourism activity increased compared to last winter. Service sector activity has been expanding. Manufacturing output continued to rise in all Districts except Cleveland, where it has been steady. Real estate market conditions showed little change: commercial markets generally remain soft and demand for housing continues to be strong. Agricultural conditions were mixed: demand for beef appears to be recovering from the effects of mad cow disease but exports of poultry products have been curtailed by the outbreak of avian influenza. Oil and gas production remain at high levels and iron ore processing has increased. Bank lending has been growing moderately.

Employment has been growing slowly in most Federal Reserve Districts. Wages and salaries have increased slightly, but employers report substantial increases for employee health-care costs. Most Reserve Banks reported level or modestly increasing retail prices, but information received from manufacturers and other businesses indicates that commodity prices have moved up more noticeably. The largest increases have been for steel and for lumber and other building materials. Shipping charges have also risen recently.

Consumer Spending

Retail sales of general merchandise rose in most Federal Reserve Districts in January and February. Strong or strengthening sales were reported in New York, Richmond, and Dallas. Sales growth was moderate in Boston, Philadelphia, Chicago, Minneapolis, Kansas City, and San Francisco. Retailers in Cleveland said sales met or exceeded their expectations.

Retail sales in Atlanta moderated slightly in February but remained above the level set in February last year. St. Louis retailers said sales declined slightly relative to a year ago. Spring apparel was said to be selling well in New York, Philadelphia, Cleveland, Richmond, Atlanta, St. Louis, and Kansas City. Sales of electronics, appliances, and home furnishings were relatively strong in Cleveland, Richmond, Atlanta, St. Louis, and Kansas City. Jewelry was selling well in Atlanta and St. Louis. Reports on retailers' inventories across the 12 Federal Reserve Districts indicated that store stocks were mostly in line with sales. Stores were still receiving spring merchandise, but retailers were generally maintaining conservative inventory plans.

Nearly all Districts reported that auto sales slowed during January and February and compared to a year ago. The exceptions were Boston, where sales picked up in February after falling in January, and Philadelphia, where sales were about steady. Auto dealers in several Districts attributed the falloff in sales to cold or stormy weather that kept shoppers off the lots. With the slowdown in sales, dealers' inventories increased.

Tourism activity has improved. Bountiful snowfalls in mountain areas gave a boost to ski resorts, according to Richmond, Chicago, Minneapolis, Kansas City, and San Francisco. Richmond and Atlanta reported good business at beach resorts, and in New York and San Francisco hotel occupancy increased compared to last year.

Services

Service industry activity moved up in the Districts reporting on this sector. Boston and St. Louis noted increased demand for information technology services. St. Louis also indicated that demand for insurance and health-care services increased, but financial services and transportation activity eased. In the Dallas District, accounting and consulting firms were seeing increased activity compared with the final quarter of last year. In San Francisco, demand has strengthened for media, high-technology, and health-care services. In Richmond service sector business was steady to somewhat improved.

Transportation activity has increased in most parts of the country. National freight companies based in Richmond indicated their business has improved and trucking companies have seen increased activity in Cleveland and Atlanta. Trucking was said to have slowed seasonally in Dallas, but railroads in the Dallas District noted robust activity. Trucking companies reported increased costs for fuel and they said labor costs have increased as a result of recent regulations limiting drivers' hours. Nonetheless, Chicago and Cleveland indicated that sales of heavy trucks have increased.

Manufacturing

Manufacturing activity rose during January and February in 11 of the 12 Federal Reserve Districts. The exception was Cleveland, where factory production rates were said to be steady. There were notable increases for electronic and electrical equipment in Philadelphia, St. Louis, and Dallas, and semiconductors in Boston and San Francisco. Cleveland and Chicago indicated that steel production had increased, and Philadelphia and St. Louis indicated that output of metal products had risen. Production of heavy trucks increased in Chicago, and auto and auto parts production increased in Cleveland and St. Louis, although the increase was said to be seasonal. Atlanta and Dallas noted increased output of lumber, and Richmond and St. Louis reported gains in furniture production. Other manufacturing industries in which expanding activity was noted were biopharmaceuticals (Boston), machine tools (Chicago), aerospace (St. Louis), and chemicals (Cleveland and Chicago). In

a few industries reports were mixed. Food processors posted gains in Dallas but declines in St. Louis. Richmond District textile producers were gaining business but there were textile plant closings in the Atlanta District.

Real Estate and Construction

Commercial real estate market conditions have shown little change in most Districts. Continuing high vacancy rates, slowing leasing activity, and downward pressures on rents were reported by Boston, Philadelphia, Cleveland, Chicago, and Kansas City. Conditions in major commercial real estate markets were mixed in the St. Louis and Minneapolis Districts. Despite the generally slack and unchanged market situation in most parts of the country, a few Districts noted some signs of improvement. In New York and San Francisco vacancies have moved down slightly and rents have begun to recover. Leasing activity has picked up in the Washington, DC area of the Richmond District.

Residential real estate markets continued to be strong in the majority of Districts. Although cold temperatures and winter storms interrupted home building in some areas in January, housing demand generally remained high. Recent gains in home sales and building activity were noted in New York, Philadelphia, Chicago, Dallas, and San Francisco. In Atlanta, St. Louis, Minneapolis, and Kansas City residential real estate activity continued at high levels. In Richmond the housing market was said to have slowed recently, but builders expect activity to pick up. Overall, builders and real estate agents in most Districts expect home sales in 2004 to be close to the 2003 sales record. Home price appreciation was characterized as steady in most Districts with the exception of San Francisco where the rate of increase was said to have slowed somewhat recently.

Agriculture

Agricultural conditions have been mixed. Good citrus crops were reported in the Atlanta and Dallas Districts, although there was some concern in Atlanta that world supplies might exceed demand at current prices. Beef prices were still declining in Chicago and St. Louis while San Francisco reported that they have firmed and Dallas noted that prices and demand had not been affected as much as expected. Chicago reported increased prices for corn, soybeans, and milk. Dry weather in the Kansas City District has adversely affected winter wheat and led some cattle producers to postpone expanding their herds, and ice and snow in the Richmond District has limited grazing there. The outbreak of avian influenza has curtailed exports of poultry from the Philadelphia, Atlanta, and Minneapolis Districts.

Natural Resource Industries

Federal Reserve Districts reporting on the energy sector noted generally strong, steady conditions in January and February. Drilling activity has been fairly level in recent months in the Kansas City and Dallas Districts, but Minneapolis noted a slight decrease in exploration activity. San Francisco indicated that natural gas producers were operating close to full capacity. Rising worldwide demand for steel has stimulated increased iron ore production. Minneapolis reported that iron ore producers in that District were operating at full capacity and ore prices were rising.

Financial Services and Credit

In most Federal Reserve Districts lending by commercial banks grew moderately in January and February. Lending to business firms was rising in Philadelphia, Richmond, Dallas, and San Francisco. In Chicago, lending to small businesses was on the rise while overall business lending was described as flat. Commercial bankers in Richmond and Atlanta said

demand for business loans has been restrained as firms are reluctant to increase capital spending. Demand for personal loans, including credit cards, appeared to have eased in New York and Philadelphia, remained steady in Dallas, and increased in Chicago. Mortgage lending declined in Atlanta, Dallas, and San Francisco, and increased slightly in Richmond and Chicago.

Changes in deposits have been mixed. Banks in the Atlanta District have generally had steady growth, but growth has slowed in Cleveland and Dallas where bankers think investors are moving money out of bank deposits and into debt and equity market instruments. Banks in the Kansas City District indicated that their deposit levels have been steady.

Employment and Wages

Federal Reserve Districts reporting on employment generally noted modest increases in January and February. Boston indicated that temporary help agencies were placing more workers in manufacturing, software development, and government. There has been increased demand for temporary help workers in customer service and sales positions in the Richmond District, in office and health-care jobs in the Dallas District, and for a variety of jobs in the Chicago District. Employment agencies in New York indicated that they have been experiencing gradual increases in demand, and professional employment agencies in the Washington, DC area of the Richmond District have boosted their own staffs in response to increased business from their clients. San Francisco District employers in the retail, construction, and agricultural sectors have been increasing their hiring moderately.

Reports on wages indicated that increases continue to be moderate. However, the rate of increase in benefit costs continues to exceed that of wages. Medical insurance and workers' compensation insurance fees remain on the rise in most Districts, although the rate of increase does not appear to be accelerating.

Prices

Most Reserve Banks reported fairly stable or slowly rising retail prices in January and February, but accelerating increases in some industrial commodity prices. Steel prices have increased, and prices of iron ore and scrap metals have risen as well. Prices of lumber and other materials used in home building were on the rise in most Districts. Energy prices, especially natural gas, remained high in most Districts and Atlanta noted price increases for petrochemicals. Cleveland noted rising rates for shipping by truck and Chicago reported rising costs for overseas shipping, primarily due to increased costs for ocean transport.

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First District--Boston

Economic activity is picking up, according to most business contacts in the First District. Retailers say sales are improving moderately, manufacturers indicate that revenues have stabilized or increased as the recovery takes hold, and demand for selected business services--both temporary workers and software and IT services--is on the rise. The exception is commercial real estate markets, which respondents report are still weakening in the Boston area and stable, at best, elsewhere in New England.

Retail

Most retailers in the First District report moderately improving sales in January and early

February. Same-store sales compared to a year earlier range from flat to gains of 17 percent. Discount store contacts note that sales are slightly stronger than in previous months. Other contacts report that sales of big-ticket items, such as furniture, flooring, and electronics, are strong.

According to auto dealers, sales were hindered by cold weather in January, but picked up in early February. High-end automobile sales are said to be strong, and used car sales increased over Presidents' Day weekend. Contacts anticipate improvements as the weather warms.

Most retail respondents indicate that inventories are in line with sales, while several note that inventories are turning over rapidly. Merchants report they are mostly holding selling prices stable, with some pockets of vendor price pressure, including the rising price of paper and the increasing cost of European imports due to the rising value of the Euro. A couple of respondents plan to hire, adding IT and product development positions, while the majority foresee little change in their overall headcount, except for sales floor personnel to be added as new stores open in 2004.

The majority of contacted retailers anticipate slow, steady growth over the next six to twelve months, while two respondents expect 2004 to be a record-setting year.

Manufacturing and Related Services

About two-thirds of First District contacts in manufacturing and related services such as R&D, equipment rentals/servicing, and publications report that demand in late 2003 and early 2004 is fairly flat from a year ago. The prevailing mood among these firms is one of relief that a recovery has taken hold in recent months, even if it is not dramatic. The remaining one-third report increases in sales from a year earlier, especially in biopharmaceuticals and semiconductors.

Selling prices are mostly flat, although prices for equipment, instruments, and semiconductors are under continued downward pressure. Contacts report high or rising prices for a variety of metals and petrochemicals. In addition, the depreciating dollar serves to increase the costs of foreign purchases.

Roughly equal numbers of manufacturing respondents plan to increase their U.S. headcount, decrease it, or leave it unchanged in coming months, with one particularly large firm planning cuts. Most adjustments will be small, except for companies transferring more of their production overseas. Pay increases are expected to average 2.5 to 3.5 percent in 2004.

About two-thirds of respondents plan to increase capital spending in 2004, mostly projects to upgrade production equipment or IT systems. Most of the remaining manufacturing and related services companies will hold capital expenditures flat.

Expectations for 2004 seem to be on a firmer footing than in prior reports. Many manufacturers describe themselves as cautiously optimistic, although one went so far as to state that his caution has evaporated and he is "just plain optimistic." On the disappointing side, some firms note that demand in markets such as aircraft and telecom has yet to turn the corner.

Temporary Employment

Responding temporary employment firms witnessed noticeable labor demand growth in Q4 2003, with revenues up 5 to 23 percent over year-ago levels. Reports on demand during the

first six weeks of 2004 are mixed, however. Manufacturing and light industrial are adding jobs, as are software and government. Contacts also report greater availability of permanent and temporary-to-permanent positions. Labor supply remains stable, although some respondents cite difficulty in filling low-end positions, and an increasing number of applicants are reporting multiple job offers.

Bill rates are holding steady, despite some reports of downward pressure. Pay rates are unchanged in most cases, although one contact believes international competition is pushing down software wages, while another cites upward pressure from a January increase in Connecticut's minimum wage and from prevailing wage laws. Respondents also express concern over growing workers' compensation, medical, and state unemployment insurance costs.

Most contacts are upbeat about 2004, expecting demand growth to pick up over the course of the year. They cite positive 2003 results, some shift toward permanent employment, and perceived improvements in business confidence as reasons for optimism. A number of respondents nonetheless express concern about the employment effects of offshore contracting.

Commercial Real Estate

The Boston office market has not improved during the past quarter. There has been almost no growth or demand for new space. Contacts report high downtown vacancy rates, and even higher availability rates, due to a persistently active sublease market. Rents continue to decline, at about a 10 percent annual pace. At the same time, real estate transaction prices remain very high, exceeding their replacement cost or lease value. By contrast with downtown, suburban Boston markets seem to have stabilized, with sublease activity declining, in part because more leases are expiring.

The rest of New England shows a similar lack of activity. Non-Boston contacts report little or no demand for office space and steady or declining rental rates, with inventory flat or even up slightly in some spots. Respondents across New England anticipate no improvement in commercial real estate markets in 2004; their hope is that office markets will not deteriorate any further.

Software and Information Technology Services

The demand for software products and IT services is reportedly strengthening. Most contacts report year-over-year revenue growth of 10 to 15 percent as of the end of December 2003 or January 2004. However, sales shifts from third to fourth quarter range widely among responding companies, partly on account of seasonal patterns and partly because their markets differ. One company reports a 10 percent decrease in sales of human resources software and considers it normal; another cites a 26 percent increase in sales of banking software and says it is "on the right track." A medical software company reports a phenomenal fourth quarter, with sales up 70 percent. Meanwhile, companies engaged in custom application development and network integration see fierce competition and high price pressures leading to relatively slow revenue growth. Companies selling overseas, especially in Europe, say they are being helped by the weak dollar.

Although firms with the strongest demand growth continue to add employees, the majority reports no net hiring; at the same time, none reports job cutbacks. Most companies say they are keeping their capital expenses flat.

The outlook is "cautiously optimistic," as most software and IT contacts are encouraged by a growing backlog. Firms expect revenue growth in 2004 about the same as in 2003, with gradual increases in employment. Beyond 2004, respondents retain a positive outlook, but express more uncertainty.

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Second District--New York

The Second District's economy appears to have grown increasingly robust in early 2004. Retailers generally report strong sales for January and the first half of February; most also indicate lean inventories and steady selling prices, with some moderation in insurance costs. Labor markets are said to be improving gradually but steadily. Consumer confidence in January climbed to its highest level in well over a year, based on two separate surveys. Similarly, surveys of manufacturers and purchasing managers, conducted in January and early February, point to widespread improvement in general business conditions.

Although snowy and icy weather has continued to constrain new home construction in recent weeks, contacts describe demand for both new and existing homes as strong and the inventory of homes on the market as low. Manhattan's office market improved in January, with vacancy rates edging down and asking rents continuing to rebound from low levels; also, the sales market for commercial properties is described as vigorous. Finally, bankers report some further weakening in demand for household loans but steady to improving delinquency rates.

Consumer Spending

Retailers report generally strong sales for January, as well as the first three weeks of February. Same-store sales gains at major retail chains ranged from 2 percent to 6 percent, compared with a year ago. In general, the more upscale chains continued to fare somewhat better than the discounters, and sales in discretionary categories were relatively strong. A number of contacts describe both sales of clearance merchandise and initial sales of spring apparel as robust; most characterize inventories as lean. Despite the unusually cold and snowy winter, most contacts did not consider weather to be much of a factor. Retailers indicate some stabilization in merchandise costs, which had been falling, and in property and casualty insurance costs, which had been rising sharply; they also note that medical insurance costs, though still rising noticeably, have decelerated somewhat.

Surveys of consumers in the district show confidence rising to its highest level in more than a year in January. The Conference Board's index for the Middle Atlantic states (NY, NJ, PA) climbed to a 16-month high in January, while Siena College's index, based on New York State residents, rose to a nearly two-year high.

Construction and Real Estate

Despite a weather-related drop-off in new home construction, residential real estate markets showed increasing signs of strength in early 2004. A contact in New Jersey's homebuilding industry reports that persistent snow and ice buildups this past winter have crimped new home construction, but that demand for housing remains quite strong and that prices continue to advance.

Similarly, contacts in Manhattan's real estate industry report an increasingly tight market for

co-ops and condos in January and February. One major firm reports an increasing incidence of overbids and multiple offers, and indicates that prices are up 5-10 percent from a year ago, on fairly strong volume. In addition, the inventory of homes on the market has reportedly dwindled to roughly half of what it was a year ago. Another contact notes that there has been a particular pickup at the high end of the market.

Manhattan's office market improved somewhat in January: Midtown's (Class A) vacancy rate eased from 10.6 percent to 10.0 percent and Lower Manhattan's rate retreated from 14.2 percent to 13.7 percent. Asking rents continue to recover, though they remain substantially lower than a year earlier. In addition, sales transactions of office buildings have reportedly been brisk, with properties selling for record high prices.

Other Business Activity

A New York City employment agency reports gradual but steady improvement in demand for office workers. This contact notes that clients that have been "dormant" for a few years are now looking to hire. In particular, hiring has picked up further in the city's key financial sector, though activity remains far short of the late 1990s pace.

Surveys of manufacturers and purchasing managers point to continued strong improvement in business conditions. Our early-February survey of New York State manufacturers shows widespread increases in new orders, employment, and the average workweek. It also points to increased price pressures--a growing proportion of manufacturers report that input prices have risen and are expected to rise further in the months ahead. Similarly, purchasing managers in both the New York City and Buffalo areas report broad improvement in manufacturing-sector conditions; input prices are reported to have accelerated in the Buffalo area but remained stable in the New York area.

Manhattan hotels report that, while January is typically a slow month, business remained relatively strong. With occupancy rates about 4 percentage points above a year earlier, and room rates up marginally, total revenue was more than 7 percent ahead of last year--except for a year after the 9/11 terrorist attacks, this is the strongest year-over-year gain since 2000.

Financial Developments

Small to medium-sized district banks once again report little change in demand for commercial loans, but weaker demand for household loans: 40 percent of bankers report lower demand for consumer loans, while more than 60 percent note decreased demand for home mortgages (though not necessarily for new purchases). Overall, more than two-thirds of bankers report declines in refinancing activity, while virtually none reports an increase.

Credit standards were mostly unchanged: no bankers reported tightening standards and only one reported eased standards. Interest rates dropped in all loan categories, led by consumer loans. However, average deposit rates were higher overall--increases were reported by 24 percent of bankers, with only 7 percent reporting decreases. Finally, delinquency rates decreased for all categories of loans except consumer loans, which were unchanged.

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Third District--Philadelphia

Economic activity in the Third District expanded in February. Manufacturers reported increases in orders and shipments for the month. Retail sales of general merchandise rose in

February compared with January and with February of last year. Auto and light truck sales were mostly steady for the month, but up on a year-over-year basis. Bank lending has been advancing moderately, with gains in business and residential mortgage lending but a decline in consumer loans outstanding. Commercial real estate markets in the region remain soft, with little change in vacancies but continuing declines in rental rates. Residential real estate construction and sales continued to be strong, moving up in February after cold, stormy weather interrupted sales and building activity in January.

The outlook in the Third District business community is generally positive. Manufacturers forecast increases in shipments and orders during the next six months. Retailers anticipate a moderate increase in sales in the spring compared with a year ago. Bankers expect business and consumer lending to increase, but have mixed views on the course of residential mortgage activity. Commercial real estate companies expect the region's office markets to firm up slowly during the year. Residential real estate agents anticipate a nearly steady sales rate for most of this year, but builders have varying forecasts: some expect increases and some expect decreases in sales for the year as whole.

Manufacturing

Manufacturing activity remained on the rise in February, according to reports from Third District firms. One-third of the manufacturing companies contacted in February reported increased shipments compared with January, twice the number that reported decreases. Four out of 10 said their orders have increased compared with January while only around one in 10 reported decreases. On balance, order backlogs at area plants continued to edge up in February. Firms in nearly all of the major manufacturing sectors in the region generally indicated that business conditions were improving. Increases in demand were especially strong for firms producing industrial rubber and plastic products, electrical machinery, and a variety of metal products. Demand for products used in homebuilding remained strong, and demand for materials and products used to manufacture industrial equipment has increased. Although conditions were improving in most industry groups, there were some reports of slowing orders among makers of electronic instruments. Processors of poultry products indicated that the occurrence of avian flu in the region has negatively affected exports but has not had much impact on domestic demand.

Manufacturing firms in the region reported generally rising prices in February, and the number of firms making such reports has increased in recent months. Among the goods frequently mentioned as rising in cost are natural gas, oil, scrap metal, steel, lumber, and various building materials.

Looking ahead, the region's manufacturers anticipate further improvement in business conditions. More than half of the firms contacted for this report expect increases in shipments and orders, and only around one in 10 expect decreases during the next six months. Area manufacturing firms plan to add employees and extend working hours in the next six months, and, on balance, they are scheduling increases in capital spending. Although inventories have been flat, overall, among area firms, almost half plan to increase finished goods inventories in the next six months and around one-fourth plan to reduce inventories.

Retail

Third District retailers generally reported that sales moved up in February compared with

January and with February of last year. The monthly gain was moderate, but the year-over-year increase was fairly strong because sales in February of last year were severely reduced by store closings during snowstorms. A brief spell of cold weather in late January helped stores move out winter apparel, and warming temperatures later in February boosted sales of spring clothing. Most of the stores contacted for this report also indicated that sales of Valentine's Day merchandise were up from last year. Retailers generally described inventories as satisfactory though they are still awaiting delivery of some spring merchandise.

Third District retailers expect sales for the spring season to be moderately above the same period last year. Store executives said consumer confidence appears to be on the rise, although they noted that shoppers are still being selective and resisting impulse buying. Although retailers in the region believe economic conditions are improving, they noted that some national chains that are retrenching have closed stores in the region despite their profitability locally.

Auto dealers reported generally steady sales in February at a pace somewhat higher than in February of last year. They cited favorable weather conditions this year compared to last for the year-to-year gain. Some dealers reported strong sales of new model vehicles and said they could sell more if the supply were greater. Local auto dealers believe the current relatively healthy sales rate will persist as long as manufacturers maintain their financial incentive programs.

Finance

Outstanding loan volume at Third District banks was moving up at a moderate pace in February, according to banks contacted for this report. Commercial and industrial loans were on the rise as business at area firms has been increasing. Residential real estate lending continued on an upward trend with gains in purchase mortgages despite some slowing in refinancings. Bankers generally indicated that consumer loan volume has moved down seasonally.

Bankers in the District anticipate moderate growth in lending this year. They expect business lending to increase further as business conditions improve in more industrial sectors. Bankers generally see an upward trend in consumer lending as employment gains begin to solidify, but some expressed concern that consumer credit quality has been weakening. Bankers and other mortgage lenders expect a fairly steady rate of residential lending for purchase mortgages during the spring, although some anticipate a slowdown later in the year.

Real Estate and Construction

Commercial real estate firms in the Third District reported little change in market conditions in the past few months. The overall office vacancy rate rose slightly in suburban markets, but was steady in the Philadelphia central business district. For suburban markets as a whole the vacancy rate is estimated at 25 percent, with a great deal of variation from location to location. The vacancy rate in the Philadelphia central business district remains at nearly 13 percent. Throughout the region, effective rental rates have continued to decline. Many lease renewals are being negotiated and tenants have tended to sign for shorter terms and less space than they had done previously. Commercial real estate contacts say that owing to these new leases, as well as the capacity of many firms to expand within their currently leased space, vacancy rates will decline only gradually during 2004. Industrial building vacancy

rates have been nearly steady, although rents have edged down. However, real estate contacts in the region said they have seen recent signs that demand for industrial space is firming as manufacturing and distribution activity has picked up.

Residential real estate agents and homebuilders generally reported that sales have been rising in recent weeks, with a noticeable pickup after a series of winter storms passed through the region. Price appreciation appears to be steady. Real estate agents expect the pace of existing homes sales to continue near its current rate through most of this year. Builders have mixed views; some expect slight declines, others expect slight increases in sales this year. Shortages of land for development continue to constrain builders' ability to meet demand in some parts of the District.

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Fourth District--Cleveland

Business conditions continued to improve slowly and steadily in the Fourth District in the first two months of 2004, as they have been since late last year. Manufacturers, for the most part, reported that their production levels have remained largely flat in recent months, but higher than at this time a year ago. Steel producers have seen demand surge recently. Retailers reported that business conditions have continued to improve in 2004, after ending 2003 with a somewhat disappointing holiday selling season. In the construction industry, residential builders continue to see strong sales, whereas conditions for commercial contractors remain less favorable. For banks in the District, loan demand in the first two months of 2004 was flat. Finally, shipping firms reported rising demand across an array of sectors.

Few firms reported any plans to increase payrolls in the near term. In addition, reports of rising input prices were more common in this report than in the last, as commodity prices continued to increase in recent weeks and steel prices surged.

Manufacturing

Both durable and nondurable goods producers reported that production levels remained largely unchanged in the first two months of 2004. Relative to this time a year ago, however, production levels are higher for about half of the contacts surveyed. Manufacturers saw steady improvement in the economic environment in 2003. Most expect to see continued steady growth in sales and production for the remainder of 2004.

In general, manufacturing contacts reported that their inventories were at acceptable levels. However, while the majority of nondurable goods producers reported holding less inventory now than at this time last year, most durable goods producers reported that their inventory levels were flat from year-ago levels. One notable exception: Some durable goods producers reported holding higher steel inventories because of current low levels of supply and long lead times for steel production.

About half of all manufacturing contacts reported higher levels of unused capacity than desired. And more manufacturers reported using overtime in the last two months than previously, though few reported any plans to increase payrolls in the near term. In addition, several firms indicated that they expected to initiate more layoffs in the coming months. There were no reports of rising wages; however, firms reported continued concerns about rising health care costs. Input prices, for the most part, were flat in recent months, though

there were reports of increases in commodity prices, especially steel prices. Rising freight prices--due to new regulations--were also reported. Most manufacturers noted that their prices had stayed flat or fallen in recent months.

Domestic steel producers reported robust orders and increasing shipments in the last several months. Contacts reported steady demand from automobile and appliance manufacturers, improving demand in industrial markets, and an uptick in demand from construction companies. Aside from an increase in demand, some of the surge in recent activity is attributed to low levels of inventoried steel. Several steelmakers also reported that their order books are full for the rest of the first quarter, and many mills have seen their lead times increase significantly. A few firms reported that their production is being slowed by shortages of some raw materials, such as scrap steel. Prices for both flat-rolled and structural steel, as a result, have continued to rise in recent weeks, as much as 20 percent by some estimates.

For most automakers in the District, automobile production accelerated sharply at the beginning of 2004; however, some of this surge in production is due to the normal seasonal patterns. For the five major automakers with facilities in the District, automobile production in the beginning of 2004 had fallen from year-ago levels.

Retail Sales

In general, retailers reported that sales activity since January had met or exceeded expectations, and they attributed this to improving consumer confidence, additional clearance activity, and the weather. Contacts at discount stores consistently reported that sales had increased from a year ago, whereas reports from specialty retailers and department stores were mixed in this regard. Retailers noted that consumer durables such as furniture, electronics, and appliances continued to sell well, as did novelty gifts and personal care products. In addition, sales of apparel items reportedly improved recently.

Overall, inventories continue to be tightly managed and are reported to be flat or down on a year-over-year basis. Retailers reported that it is easy to find qualified workers. While there were no reports of rising wages, contacts did report increases in health care costs. In general, however, input costs remain unchanged.

Automobile sales so far in 2004 have been soft, with many dealers attributing much of the sluggishness to bad weather. With the exception of trucks--sales of which have remained reasonably strong since the year began--sales are generally down from both the end of 2003 and this time a year ago. Numerous incentives remain in place for new cars, which have hurt used-car sales. Dealers that have reduced used-car prices have reported stronger sales recently.

Construction

Some homebuilders reported a slight slowing in activity early in the year because of bad weather, but in general, residential builders reported that business conditions remained strong in recent months and that they expect sales in 2004 to equal or eclipse sales in 2003. Materials costs have risen in recent weeks, notably for lumber, drywall, and steel. Many builders, however, have managed to offset rising materials costs by raising their own prices. Several contacts reported shortages of subcontractors in certain specialized trades.

For commercial builders, conditions at the beginning of this year were little changed from those at the end of last year, as activity continues to be weak. Sales are especially sluggish in

the Cleveland and Pittsburgh areas. But contacts continue to expect conditions to improve by mid-year, reporting several potential projects in the planning stages. Commercial builders reported less of a change in materials costs than residential builders, but noted increases in steel prices. Companies have also cut staffing levels.

Banking

Overall, loan demand in the first two months of 2004, among both commercial and consumer clients, was flat relative to the end of 2003 and a year ago. Competition for borrowers was characterized as strong. The number of mortgage refinancing applications remains much lower than at their zenith in 2003; however, originations have reportedly improved in recent weeks. Core deposit growth was mixed among institutions in the District. A few contacts suggested that current and potential customers may increasingly be moving money into capital-market instruments instead of deposits. Most banks indicated that there was little change in credit quality in recent weeks.

Trucking and Shipping

Trucking and shipping firms reported that demand has risen recently across an array of sectors, including manufacturing and retail. Most contacts indicated that they are operating at or near capacity. Several firms plan to expand their fleets in 2004--sales of heavy-duty trucks have reportedly risen sharply in recent weeks--but a limited supply of drivers could constrain any expansion. New so-called hours-of-service regulations also limit the amount of labor current drivers can provide. Freight rates have reportedly increased in recent weeks, in part from increasing demand and new regulations. And some companies are concerned about future fuel cost increases, after an announcement by the Organization of Petroleum Exporting Countries that it will cut current production levels.

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Fifth District--Richmond

The pace of Fifth District economic growth quickened somewhat in January and the first three weeks of February as the expansion of manufacturing picked up and growth in other sectors remained moderate. Factory shipments and new orders expanded faster at many manufacturing firms, including some in the beleaguered textile and furniture industries. Outside of manufacturing, District retail and services firms recorded moderately higher revenues and employment in recent weeks. In real estate markets, residential activity remained at an elevated level and commercial leasing activity was flat in most markets. District bankers reported only modestly higher loan demand as businesses' capital spending remained light. In agriculture, unusually cold and icy weather slowed the development of small grain crops and pastures in some areas of the District.

Retail

District retailers generally reported stronger sales growth since our last report, despite periods of snowy weather. A general merchandise retailer with stores throughout the District said sales growth was at the high end of their projected range. Electronics and spring apparel sold briskly and shoppers who redeemed gift cards typically spent more than the card amount. According to a contact at a large home-improvement chain, their sales growth continued to exhibit momentum. A hardware store contact in central Virginia said he had also seen an increase in demand. But contacts in some areas noted sluggish activity. Sales at department stores in central North Carolina and coastal South Carolina were unchanged

over the last six weeks.

Services

District services firms reported steady to somewhat improved business conditions in recent weeks. Contacts at two North Carolina healthcare organizations said demand had been unchanged over the past six weeks; one described the local economy as "steady, but tenuous" because of the large number of unemployed textile workers in the region. Information technology businesses in South Carolina and West Virginia reported a slight increase in business, while an IT firm in Maryland characterized demand as flat. Adding to the positive tone, nationwide freight haulers headquartered in the Fifth District reported some increase in demand. Although most services businesses said they had not increased hiring in recent weeks, professional recruitment firms in the Washington, D.C., area reported boosting their staffs because their clients were "coming out of hibernation."

Manufacturing

District manufacturing activity picked up in January and early February. Shipments rose at a quicker pace and new orders expanded further, led by increases in the chemicals, furniture, industrial machinery and textile industries. A textile producer in North Carolina said that business improved in January noting that--despite operating their plants six days a week--his firm's inventories could not keep pace with orders. A furniture manufacturer in North Carolina told us that orders for residential furniture were somewhat stronger, but noted that commercial business remained soft. Despite a general rise in factory output in January, manufacturing employment in the District declined again. On the price front, several textiles and apparel producers indicated that raw materials prices were rising, but said their ability to pass on price increase to customers was limited because of import price competition.

Finance

District bankers reported only modest growth in loan demand in January through mid-February. Demand for commercial loans picked up in a few areas, but bankers noted that with lackluster capital spending, businesses continued to have little need to borrow. A Richmond, Va., banker, however, reported increased borrowing for merger and acquisition activity and noted that borrowing by defense contractors had increased appreciably. A dip in mortgage interest rates stimulated residential mortgage lending, including some refinancing activity. A mortgage lender in Richmond, Va., reported that loan demand was fairly strong in recent weeks and that housing was "doing well" in the area. A banker in Greenville, S.C., however, was less upbeat, noting that recent job layoffs had cooled mortgage lending in that market.

Real Estate

District realtors continued to report a generally strong housing market, although the pace of growth in some areas slowed since our last report. A realtor in Odenton, Md., said home sales had been brisk, albeit a "little quieter than before," while a contact in Greenville, S.C., characterized sales as "slowing, but still above average." In contrast, several markets in Virginia remained exceptionally strong. A realtor in Virginia Beach, Va., said the market was "still hot" and an agent in Fairfax, Va., reported that houses for sale continued to receive multiple offers; in one case 30 offers for a single listing. In Fairfax County, Va., prices "shot up another 5 percent" in just the past few weeks. Residential builders in the Baltimore, Md., and the Tidewater, Va., areas noted that land prices were rising rapidly and said that area builders were searching for more affordable land outside their primary markets. A contact in Charlotte, N.C., said new infrastructure had to be added to allow home construction in some

areas, causing land prices to increase.

According to commercial realtors, leasing activity in the Fifth District was flat outside of a couple of metropolitan markets. Contacts in Baltimore, Md., Charlotte and Raleigh, N.C., and Richmond, Va., reported no significant change in industrial, office, or retail leasing during recent weeks. In contrast, realtors in the Washington, D.C., metropolitan area said they had been "extremely busy" since the holidays. Office leasing was particularly brisk in the D.C. metropolitan area, driven largely by firms undertaking long-awaited expansions. Commercial realtors in Roanoke, Va., also enjoyed a busy beginning to 2004. A contact there reported that "office activity was up for the first time in fifteen months" and that retail leasing had been particularly strong. Overall in the District, rents for all types of commercial space were stable and vacancies generally unchanged.

Tourism

Tourism strengthened further since our last report. Contacts at several District ski resorts told us that unusually frigid weather in January and February resulted in a wonderful ski season. They said that bookings for the Presidents' Day weekend were somewhat stronger than last year and noted increased spending at restaurants and for recreational equipment. Tourism along the coast was also stronger. A hotelier at Virginia Beach reported that they were completely booked over the holiday weekend. A contact in Myrtle Beach, S.C., added that hotels there were at 90 percent capacity even with the bad weather and that the local airport had its busiest January ever.

Temporary Employment

District temporary employment agencies generally reported modest increases in the demand for workers since our last report. Agents in Raleigh, N.C., and Hagerstown, Md., said that demand for customer service and sales staff was particularly high and that demand for workers would likely rise over the next few weeks because of an improving economy. The Hagerstown, Md., contact expected upward pressure on wages for temporary workers if economic growth continues to strengthen.

Agriculture

Frigid temperatures coupled with ice and snow limited grazing on District pastures during late January and early February. As a result, farmers in Maryland and Virginia increased the feeding of hay and grain to their livestock. Hay supplies were described as sufficient but the quality was below average. In Virginia, contacts noted that late planting, inadequate topsoil moisture, and extremely cold temperatures impeded the growth of small grain crops. In contrast, small grains were generally in fair to good condition in Maryland and the Carolinas.

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Sixth District--Atlanta

Reports from Sixth District contacts suggested that business activity continued to expand through mid-February. Merchants' sales, with the exception of auto dealers, met or exceeded expectations and the near term outlook was upbeat. Residential housing markets remained generally strong, and commercial real estate markets began to pickup slightly from low levels. Factory activity was increasing in the District, and transportation contacts reported improving business. The District's tourism sector continued to outperform last year, aided in

part by the weaker dollar. Banking industry contacts noted a steady flow of deposits, but subdued business investment activity. Reports indicated that hiring had picked up in some fields, including manufacturing, but many firms continued to rely extensively on flexible staffing options. Price increases were generally restrained except for certain commodities such as lumber, fuel, and steel.

Consumer Spending

Strong January retail sales moderated slightly in early February but remained positive relative to last year. Women's apparel, jewelry and home-related products were noted as strong sellers. Most retailers anticipate that sales over the next few months will continue to increase modestly compared with last year. Retail inventories were mostly described as balanced. Regional car sales were mediocre in January and early February. Sales of domestic models fell behind year-ago levels, and sales of foreign models slowed considerably from the strong pace set in late 2003.

Real Estate

According to Realtor contacts, home sales in the sixth District during January and early February were similar to last year's levels, whereas builders reported that new home construction was up modestly compared with last year. Both sales and construction were expected to increase during the first quarter. Inventories were viewed as being balanced in most markets, and low in parts of Florida.

There was some evidence that commercial real estate markets in the region have stabilized. Vacancy rates have declined from recent peaks in many markets; net absorption has been positive; and there are continued reports of small improvements in leasing activity. While still at low levels, development activity has reportedly picked up slightly as well, particularly the construction of institutional facilities.

Manufacturing

Manufacturing activity continued to improve in many industries during January and early February. Suppliers to the District's auto industry were increasing staffing levels. Lumber mills in Alabama, Georgia, and Florida reported strong markets and a paper mill was shipping samples to new overseas markets. Major new defense contracts added jobs in Alabama and Florida. A manufacturer of capital goods for factories worldwide increased payrolls. A high-tech manufacturer noted a longer factory workweek and an upbeat near term outlook. Less positively, additional closings of textile plants were announced.

Tourism and Business Travel

Reports from District's tourism and hospitality sector were positive. In south Florida, the tourist industry experienced a strong season, driven primarily by unusually cold weather up north and a weaker dollar. Hotel occupancies there remained strong, and some restaurants reported record business. Advance bookings from Canada and Europe were up along Florida's Gulf Coast, and the gaming industry continued to expand along Mississippi's Gulf Coast. Reversing the trend over the last two years, bookings at some Atlanta hotels increased.

Financial

Responses from the financial sector were mixed. Deposit flows remained steady in January and consumer delinquencies were down from last year. However, business loan and venture capital investment activity continued to be restrained. Demand for commercial loans was

described as flat, and businesses continued to approach major capital expenditures very cautiously. Some mortgage bankers noted a decline in new loan applications. Merger activity picked up within the District's banking industry.

Transportation

Regional truckers across the District reported generally improved business conditions in January and early February, following on the robust performance in late 2003. However, a few contacts noted that higher diesel prices had reduced profit margins for trucking companies. Airborne traffic recovered somewhat in Atlanta and Miami for both domestic and international shipments.

Employment and Prices

Most reports indicated that hiring was picking up in early February. Some hiring involved recalls of previously laid off workers, but many firms were relying more on temps or contract employees. In Louisiana and Florida, layoffs in the banking industry, following recent bank mergers, were reported.

Although most contacts indicated that competitive pressures continued to restrain prices, a few reports noted price increases for lumber, steel, fuel, and raw materials used in steel and petrochemical production. New regulations limiting truck drivers' hours were said to have caused freight costs to increase.

Agriculture

Contacts from citrus and sugar industries expressed concern about global over-production this year, and resulting weak market conditions. The District's large poultry industry will be impacted by export bans related to avian influenza. However, District shipments to Russia, the region's largest export market, were currently unaffected.

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Seventh District--Chicago

Reports indicated that the pace of expansion in the Seventh District economy picked up somewhat in January and early February, largely reflecting improvements in manufacturing. A broader array of manufacturers said that new orders and shipments were up during the period, and inventories remained lean. Contacts suggested that both consumer and business spending picked up, though hiring was again subdued. Construction and real estate activity also rose somewhat. Loan volumes increased slightly and overall credit quality improved. Retail price increases remained subdued, though costs and prices were reportedly increasing for many manufacturers. Reports from agricultural contacts were more upbeat, in part reflecting the higher prices being received for corn, soybeans, and milk.

Consumer spending

Contact reports were mixed, but generally suggested that consumer spending rose slightly in January and February. However, some national retailers said that sales gains in the Midwest were still weaker than their national averages. Merchants reported that sales were strongest for deeply discounted items. Contacts in casual dining indicated that sales picked up across restaurant segments in January and February. By contrast, District auto dealers reported that light vehicle sales slowed from December to January and remained soft into February. Light vehicle inventories were said to be on the "high side" and many dealers remained cautious in placing new orders. However, some dealers said that wintry weather contributed to higher

service and body shop revenues. Heavier snowfalls also helped boost tourism in parts of the region. Looking ahead, most retail contacts expressed optimism that consumer fundamentals are in place for stronger sales growth later in the year.

Business spending

Business spending picked up modestly again in January and early February. However, firms remained somewhat cautious regarding their capital spending and hiring plans. Many firms reported that capital spending increases would be modest during the first quarter. A contact with one large IT firm said that many CIOs were planning to increase spending on storage, sales automation, and security software. Staffing firms reported that new orders for temporary workers continued to trend up modestly. Moreover, one large temporary help firm indicated that the average number of hours per assignment had surpassed its previous record high and was still rising. On balance, permanent hiring remained relatively subdued. There were some new reports of hiring by manufacturers, but the gains were largely offset by new layoff announcements. There were, however, more frequent reports of small businesses adding one or two workers to their permanent payrolls. With regard to both capital spending and hiring, much of the activity was geared toward replacement, rather than expansion. Contacts reiterated that competition remains intense and, as a result, many firms are focused on maintaining margins and market share, rather than "growing the business."

Construction/real estate

Reports indicated that overall construction and real estate activity edged up in January and early February. Sales of both new and existing homes were said to be strengthening somewhat as long-term mortgage interest rates declined. Some contacts suggested that the potential for higher mortgage interest rates later in the year prompted some "fence-sitters" to jump into the market in recent weeks. Homebuilders indicated that model traffic was strong, providing them with "high-quality leads." Inventories of existing homes for sale remained low, and home price appreciation was described as still healthy in most areas. Conditions in most nonresidential markets changed little from our previous report as vacancies remained elevated and asking rents were still under downward pressure. A few contacts noted a seasonal uptick in office property showings and inquiries, but it had yet to lead to a discernible increase in leasing activity. One contact reported that lease-termination deals had subsided modestly since the fourth quarter of 2003, suggesting that a recovery in office markets may be drawing nearer.

Manufacturing

District manufacturers reported solid gains in activity since the beginning of the year. A wide array of manufacturers said that shipments were up, new orders were strong, and inventories were still lean. One steel contact said that the industry was experiencing the strongest boom in 30 years as domestic demand for steel products remained robust and demand from foreigners picked up. Orders and shipments of heavy trucks strengthened further early this year, due in large part to increasing freight shipments and an aging tractor fleet. New orders for agricultural equipment were up sharply in January, according to industry contacts, while demand for heavy construction equipment remained strong. Machine toolmakers, primarily smaller niche producers, noted that new orders continued to rise, leading some to boost workers' hours or hire more temporary workers. One toolmaker said that the volume of price inquiries was "amazing," a phenomenon he attributed to a weaker dollar. After several years of strong sales, automakers were expecting light vehicle demand to be relatively flat in 2004.

Banking/finance

On balance, overall lending activity increased slightly in January and early February. On the household side, a large bank reported that credit card volumes were up slightly. Many bankers said that mortgage applications also rose somewhat from relatively soft levels toward the end of 2003. Lenders noted that declining mortgage interest rates spurred some new refinancing activity and helped keep new originations strong. One banker said that mortgage loan margins continued to narrow with a "huge mortgage underwriting infrastructure" competing for a dwindling pool of potential borrowers. Overall consumer credit quality was said to be improving, and some banks were reportedly loosening up on their standards. On balance, business loan volumes were still flat, although demand for small business loans continued to edge up. A few lenders pointed out that a good deal of the demand from commercial borrowers appeared to be for funding acquisitions, rather than for net expansion. Some contacts indicated that more firms were applying for lines of credit, but those lines were going largely unused. Business credit quality improved further from our previous report, while some lenders were loosening standards on business loans.

Prices/costs

Retail price increases generally remained subdued, but input and output prices appeared to be rising in manufacturing. Overall, retailers continued to rely heavily on promotions, although some were said to be cutting back on price discounts. Manufacturers in a variety of industries reported modest price gains or less discounting for their products. One steel producer said that prices for a wide range of steel products, which have been rising rapidly since the second quarter of 2003, will continue to increase sharply in the near term. The price increases are being driven by higher demand, notably from China. This also had led to some materials shortages (for scrap, coke, and iron ore) and industry capacity constraints. More generally, many manufacturers continued to express concern over rising natural gas and materials costs. Overseas shipping costs were also reported to be under pressure due to a shortage of ocean freight capacity. Wage gains remained relatively subdued while benefits costs, particularly for health insurance, continued to rise.

Agriculture

Agricultural contacts generally reported improved conditions in January and early February, with one noting that "coffee shop talk is definitely upbeat." Higher corn and soybean prices have boosted income from crops in most areas of the District. Many farmers continued to store crops in anticipation of future price increases. Dairy farmers' prospects also improved, as lower national production started to push up milk prices. The livestock sector, however, continued to deal with the fallout from the "mad cow" incident. Beef prices have drifted lower, in large part due to some nations' continued ban on beef imports from the U.S. Furthermore, feed costs were rising due to new regulations for cattle feed and higher crop prices. Land values and cash rents of agricultural land moved higher once again. Eastern portions of the District were reported to have excellent moisture levels for planting, while western portions needed considerably more moisture.

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Eighth District--St. Louis

Economic activity in the Eighth District continues to expand slowly. Reports of stronger orders, plant openings, and expansions in the manufacturing and services sectors have all increased since our previous report. Retail sales declined slightly in December and January

over year-earlier levels. Car sales also decreased slightly over the same period. Residential real estate markets are still doing well, but commercial real estate markets remain weak in most of the District. 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 December and January were slightly down, on average, over year-earlier levels. More than 50 percent of the retailers surveyed noted that sales levels met their expectations. About 33 percent of the contacts reported that sales were below what they had anticipated. Jewelry, personal and home electronics, laptop computers, decorative items, seasonal items, toys, and furniture were strong sellers, while computer hardware and software, small home furnishings, lawn and garden items, home audio equipment, and apparel were moving more slowly. About two thirds of the retailers surveyed noted that inventories were at desired levels. Most of the remaining contacts reported that inventories were lower than desired. Retailers appear optimistic about the next two months, with most of the contacts expecting sales to increase over 2003 levels.

Car dealers in the District reported that, compared with last year, sales in December and January were slightly down, on average. About half of the car dealers surveyed reported increases in sales, while the other half reported decreases. More than 40 percent of the car dealers surveyed noted that sales of used and low-end cars had increased. About 25 percent of the contacts reported increased use of rebates, while 68 percent reported no change. About 25 percent of contacts surveyed reported a decrease in the acceptance rates of finance applications, while 17 percent reported an increase in acceptance rates. More than 35 percent of the car dealers surveyed reported that their inventories were at desired levels, while 50 percent noted that their inventories were too high. A slight majority of the car dealers surveyed are optimistic about the next two months and expect sales to increase over 2003 levels.

Manufacturing and Other Business Activity

The Eighth District's manufacturing sector continues to show signs of improvement. Reports of stronger orders, plant openings, and expansions have all increased since our previous report. Manufacturers in the aerospace, automotive parts, metal parts, furniture, and electronics sectors reported recent plant openings, expansions, and relocations to the District, with plans for increased employment. Although manufacturers in the food processing sector generally reported plant closings and layoffs, a meat processing firm has announced plans to open a new plant early this year. Despite the generally positive outlook, some District manufacturers reported decreased orders, layoffs, and plant closings. Plant closings have affected manufacturers in the food processing, appliance, mineral enrichment, and iron fabrication sectors. While automotive-related sectors generally reported expansions throughout the District, one large auto assembly plant announced plans to layoff employees in the second quarter of 2004. Contacts have reported a rapid increase in steel prices since the steel tariffs were rescinded last December. Steel-using manufacturers attribute this rise to increasing costs of raw materials for domestic steel production; they also note that a weak U.S. dollar and rising ocean freight costs are preventing them from buying foreign steel to compensate. Some contacts even report that steel suppliers are placing them on allocations and are canceling existing contracts.

The District's services sector also continues to show signs of improvement. Firms reporting facility openings, expansions, and new hires include those in the banking, insurance, health

care, technology, tourism, and airline services sectors. While firms in the services sector seemed generally optimistic, some firms reported facility closings, employee transfers, and layoffs. Firms reporting facility closings and layoffs include those in the financial and transportation services sectors. Reports from the telemarketing sector were mixed.

Real Estate and Construction

The Eighth District's residential real estate market had a strong year in 2003. Memphis home sales set a record in 2003, with a gain of 9.2 percent over 2002. December year-to-date home sales increased by 11.6 percent in the greater Louisville area and by 1.3 percent in Little Rock. Residential construction continues to do well in the Eighth District. December 2003 permits for single-family homes were up in all of the District's metropolitan areas compared with December 2002. In the greater St. Louis metropolitan area, permits increased by 2.0 percent. Residential construction remains strong in central Kentucky, and homebuilders in Louisville are very optimistic about 2004. Contacts report that construction has also been brisk in Fayetteville, Arkansas. Commercial real estate continues to lag behind the residential market in most of the District. The office vacancy rate in downtown St. Louis was up by 14.0 percent in December compared with December 2002. The office vacancy rate in the greater Louisville area fell to 17.7 percent from 20.2 percent in midyear 2003, while the industrial vacancy rate decreased by 1.2 percentage points in the fourth quarter. Construction has slowed down somewhat in west Tennessee, but continues to do well in Danville, Kentucky. Contacts in northeast Arkansas expect market conditions to improve in 2004.

Banking and Finance

A recent survey of senior loan officers at a sample of District banks indicated little change in the overall lending activity in the past three months. During this period, credit standards and demand for commercial and industrial loans remained unchanged for both large and small firms. Credit standards and loan terms for commercial real estate loans remained basically unchanged in the past three months, while demand for commercial real estate loans was moderately stronger. Meanwhile, both the credit standards and the demand for residential mortgage loans, credit cards, and other consumer loans were generally unchanged.

Agriculture and Natural Resources

Crop yields improved in 2003 over 2002 for most District states. During 2003, total production of corn in the District states increased by about 20 percent, while total production of sorghum and winter wheat increased by about 10 percent and 25 percent, respectively. In contrast, total production of soybeans declined by at least 15 percent in each of the three largest producing states in the District--Illinois, Indiana, and Missouri--leading to an overall decline of about 9 percent. Caused in part by December's case of mad cow disease, prices-received for beef cattle decreased from December to mid-January by at least 5 percent in all District states, except Tennessee, which had a smaller decline.

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Ninth District--Minneapolis

From early January through late February the overall Ninth District economy showed firm growth. Residential real estate, manufacturing, consumer spending, mining and tourism were up, while commercial real estate, energy and agriculture were mixed. District

employment grew slightly. Wage and price increases were generally modest; however, significant price increases were noted in steel, health insurance and home heating.

Construction and Real Estate

Commercial construction activity was mixed. In Duluth, Minn., a property listing service representative said the office market has recently stabilized after office vacancy rates increased to 17 percent. In contrast, a representative of an economic development office in the Eau Claire, Wis., area noted that there wasn't a lot of open office space. According to a report by a commercial real estate firm, industrial development activity is expected to be somewhat slow in 2004, while retail building is expected to be active for the Minneapolis-St. Paul area; however, development won't be as strong as in 2003.

Housing permit activity was strong, but sales slowed. A representative of a contractors association in Montana reported that residential building remains healthy, especially high-end homes in resort areas. Permits for new housing construction in the Minneapolis-St. Paul area were up 15 percent in January compared with a year ago, but recent construction slowed due to cold and snowy weather. The number of closed home sales was down 20 percent in January in the Minneapolis-St. Paul area, with the median price 5 percent greater than in January 2003.

Consumer Spending and Tourism

Overall consumer spending grew moderately. A major Minneapolis-based retailer reported same-store sales during January were 5 percent higher than a year ago, while February sales were at the high end of plans. A mall manager in the Minneapolis area reported solid traffic during January and early February, with particularly strong traffic on Valentine's Day weekend. Retail sales were strong during January and early February at a mall in North Dakota, including a 14 percent increase the week of Valentine's Day compared with last year. Traffic at a Montana mall was up 7 percent in January and 4 percent for the first part of February compared with last year, according to the mall manager.

Traffic and sales were noticeably down at Minnesota auto dealerships in January and early February compared with last year, according to a representative of a car dealers association.

Substantial snowfall in late January and early February boosted winter tourism activity in many parts of the district. A Minnesota ski hill reported near capacity ski crowds in early February. Mountain snow packs through January were 30 percent to 40 percent deeper than last year in Montana; one large resort reported skier numbers up 10 percent. However, a tourism official in the Upper Peninsula, which often reaps the benefit of being one of the few areas with snow, reported that recent activity was slower than last year because most Midwest areas have snow.

Manufacturing

Manufacturing activity increased. Preliminary results from a survey of district manufacturers conducted in late January and early February by the Federal Reserve Bank of Minneapolis and the Minnesota Department of Employment and Economic Development (DEED) revealed that businesses expect production, productivity and profits to increase in the first half of 2004 from a solid second half of 2003. In addition, a January survey of purchasing managers by Creighton University (Omaha, Neb.) indicated overall improved manufacturing activity in the Dakotas and Minnesota. Two meat processors in Minnesota plan to expand plants. A construction equipment manufacturer noted that recent strong

orders are putting pressure on production capacity. A lumber mill plans to add a facility in western Wisconsin.

Energy and Mining

Activity in the energy sector was mixed, and the mining sector grew. Mid-February district oil and natural gas exploration amounts decreased slightly from early January levels; however, a refinery in Minnesota plans to spend \$325 million to \$400 million for upgrades. Most major district operating iron ore mines continue to produce at capacity, and prices for taconite are up significantly. In Montana, a mining official noted steady activities with several mining companies planning expansions or "kicking the tires" of potential sites. Prices remain strong for many metals and minerals.

Agriculture

Agricultural activity was mixed. Results of the Minneapolis Fed's Survey of Agricultural Credit Conditions revealed that a third of lenders expect above average farm income during the first quarter of 2004 compared with 20 percent that expect below average income. Grain and soybean prices remained strong while beef prices stabilized. However, the number of cattle on feed dropped for many district states. The discovery of avian flu in some U.S. flocks caused several countries to close their borders to imported poultry, which brought some distress to district turkey producers. Meanwhile, several snowstorms across the district eased drought conditions.

Employment, Wages and Prices

District employment increased slightly. Increases in employment include 60 job openings at a mine and 90 new positions at a state university in Montana. A Montana bank director noted a tight labor pool for entry-level positions. In Minnesota, a pork processing plant plans to hire at least 300 more employees over the next four years, and an insurance and benefits group recently announced plans to add 100 employees in the state. A Minnesota director reported a significant pick up in recruitment of information technology professionals in all sectors. Preliminary results of the survey of district manufacturers conducted by the Minneapolis Fed and DEED showed that 28 percent of respondents expect to increase employment over the next six months; 14 percent expect to decrease staff.

According to a recent survey of Minnesota businesses across industry sectors conducted by DEED, 82 percent of respondents expect employment to remain the same for the first half of 2004, while 13 percent expect to hire new workers. An informal survey of businesses in southwestern Minnesota during early February showed that two-thirds of respondents expect flat employment while the remaining third expect modest increases in staff levels.

Employment reductions include over 120 employees recently laid off at a bus assembly plant in North Dakota. A Minnesota-based retailer will eliminate 70 positions at its headquarters and distribution centers.

Increases in wages were moderate. Recent wage increases have generally stayed within 2 percent to 3 percent, according to a bank director. Labor representatives in the Minneapolis-St. Paul area noted that health care benefits are the top issue in collective bargaining talks.

While overall price increases were modest, significant increases were reported in steel, health insurance and home heating. According to preliminary results of the survey of district manufacturers, 31 percent of respondents expect to increase prices, and 10 percent expect to

decrease prices. A steep hike in some steel prices was noted, including a 30 percent climb in steel wire and tubing. A bank director noted that health insurance rate increases remained in the double digits. Prices for heating homes in the Upper Peninsula were reported as high as 50 percent above year-ago levels.

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Tenth District--Kansas City

The Tenth District economy continued to grow in January and February. Manufacturing activity expanded further, and retail sales excluding autos were up moderately. Housing and energy activity generally maintained a brisk pace, and agricultural conditions remained favorable overall. On the negative side, auto sales fell slightly, and commercial real estate remained weak. Labor markets also remained slack, although some increases in hiring were noted. Wage and price increases were generally minimal, but rising costs of materials appeared to be putting some upward pressure on manufacturers' output prices.

Consumer Spending

Non-auto retail sales in the district were solid in January and February, as most stores reported moderate increases from a year ago. Among product categories, sales were particularly strong for most kinds of apparel and home improvement items. With the recent solid sales, most store managers were satisfied with inventory levels and planned typical increases in stocks heading into spring. Most managers remain optimistic that solid year-over-year sales growth will continue in coming months, and some stores plan modest increases in hiring. In contrast to non-auto retail sales, sales of motor vehicles weakened somewhat in January and February and were below year-ago levels in much of the district. With the weaker-than-expected overall sales, inventories at most dealerships were higher than desired. On the positive side, some dealers reported a pick-up in used vehicle sales, and nearly all dealers expect total vehicle sales to improve in coming months. Tourism activity in the district was generally strong. Rocky Mountain ski areas reported increased out-of-state visits in February, and activity was especially brisk over the President's Day weekend. Airport traffic also increased further in most cities. Heading forward, travel agents generally report solid bookings for spring leisure travel.

Manufacturing

District manufacturing activity expanded further in January and February, although rising input costs were putting increased pressure on many firms' profit margins. Plants generally reported higher levels of capacity utilization than in previous surveys, and shipments remained well above year-ago levels. Factory employment and hours were also reported to be slightly higher than in previous surveys. Firms remained quite optimistic about future production, due in part to persistent order backlogs and low levels of finished goods inventories. In a change from past surveys, contacts in the aircraft manufacturing sector were also cautiously optimistic. Most manufacturing materials remained generally available, and managers expect few changes in lead times heading forward. Many plant managers, however, expressed considerable concern about the effects of recent sharp increases in the price of steel and some energy-based products.

Real Estate and Construction

Residential real estate activity continued at high levels in January and February, while commercial real estate markets remained weak. Although single-family housing starts edged

down in most district cities, starts generally remained near last year's strong levels. Moreover, most builders expect home construction to strengthen somewhat through the spring, over and above the normal seasonal increase. Realtors reported that home sales were flat to slightly higher in most district cities following modest declines in late 2003. Home prices were basically unchanged from previous surveys. Realtors generally expect continued improvement in home sales and moderate increases in home prices in coming months. Mortgage lenders reported a modest rise in mortgage demand, as demand for both new home purchase loans and refinancings increased slightly. Lenders expect mortgage demand to continue to edge higher through the spring. Commercial real estate activity in the district remained weak in January and February. Office vacancy rates and prices for office space were largely unchanged in most district cities. On the positive side, however, sales of office space were up slightly in some cities, and commercial realtors generally expect modest improvements in office markets in 2004.

Banking

Bankers report that loans and deposits both held steady since the last survey, leaving loan-deposit ratios unchanged. Demand for home mortgage loans stabilized after falling in the last two surveys, and demand for other loan categories was also little changed. On the deposit side, slight increases in liquid accounts and small time deposits were offset by a decline in large CDs. All respondent banks left their prime lending rates and consumer lending rates unchanged. A few rural banks tightened lending standards, citing concerns about local business activity.

Energy

District energy activity maintained a brisk pace in January and February. The count of active oil and gas drilling rigs in the region was unchanged from the previous survey and still 30 percent above year-ago levels. Some producers reported that a shortage of qualified rig crews was constraining expansion of drilling. Most energy contacts expect slow but sustained growth in drilling activity in coming months, as energy prices are expected to remain high.

Agriculture

District agricultural conditions generally remained solid in January and February, although the drought continued to have some adverse effects. District bankers reported minimal financial impact on producers from the mad cow incident last December, and credit reviews generally showed improvement in farm loan portfolios during the past year due to strong cattle and grain prices. Farmland values also remained high in most parts of the district. On the negative side, the winter wheat crop remained dry. Also, while ample hay supplies kept forage plentiful, lingering drought conditions caused most cattle producers to continue to delay expansion of their herds.

Wages and Prices

Wage and price increases generally remained modest in January and February, but there were more signs of upward price pressures in manufacturing. As in the previous survey, hiring announcements by district firms exceeded layoff announcements. Nevertheless, reports of labor shortages remained relatively scarce outside of the health care, energy, and trucking industries, and most firms continued to offer only cost-of-living wage increases. Most retailers reported flat prices compared with previous surveys and expect little change in their prices heading forward. Builders reported rising costs for some materials, including lumber, sheetrock, and steel products, and they expect continued increases through the

spring. In the manufacturing sector, firms noted sharp cost increases for steel and some energy-based products. To cover these cost increases, a sizable number of firms either increased selling prices or plan to do so in coming months. A couple of firms said they would have to raise output prices just to stay in business. A few other firms, however, reported they were able to increase productivity enough to offset the higher costs.

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Eleventh District--Dallas

Eleventh District economic activity showed signs of accelerating from early January to mid-February. Contacts expressed increased optimism about the economic outlook but had mixed views about the strength of expected activity in the second half of 2004.

Manufacturing activity continued to strengthen, and retail sales were up. There was little change in service sector, energy, construction, financial services, real estate activity and agriculture.

Prices

Energy prices remain relatively high putting upward price pressure on other products and services. Crude oil prices have remained in a range of \$32-\$35 in the first six weeks of 2004. U.S. crude inventories averaged near 270 million barrels since January, about the level set by the National Petroleum Council as critically low, and at one point hit the lowest levels since 1982. Prices and inventories have been driven by strong demand, a weak dollar, restrictive OPEC quotas, and higher tanker rates. Looking ahead to the possibility of weaker demand in the spring, OPEC announced a quota reduction of 4 percent to 23.5 million barrels per day, but actual compliance would mean nearly ten-percent less production.

Heating oil prices, near 90 cents in late December, were pushed over \$1 per gallon by cold January weather and high crude prices. However, high inventories of distillates and warmer weather have put downward pressure on prices in recent weeks. Gasoline demand has been strong, and gasoline prices have been rising as heating oil retreats, with wholesale prices over \$1 per gallon. At the pump, (nominal) prices have been the highest ever seen in January and early February.

Natural gas prices rose sharply with winter weather in early January, and spot prices peaked at the Henry Hub around \$7.00 per million Btu. Inventories so far this year generally have remained above the five-year average, with cold weather not pulling them below normal for this time of year. Milder weather in late January and February pushed prices back to near \$5.

A number of industries reported upward price pressures--as a result of stronger demand, input cost increases and a weaker dollar. Prices of food products have started to rise, according to contacts, as a result of higher input costs; flour and shortening costs are up 15 percent over the past month. High fuel prices remain a concern for transportation firms. Strong rail demand pushed up prices, but intense competition between airlines is keeping a lid on fares.

Prices have risen for some construction-related products. Producers of cement are very excited because this is the first price increase in 2 to 3 years. Heavy demand and low inventories pushed up lumber and timber prices. Prices for some final products, such as doors and cabinets, have remained steady but are expected to increase in 2005. Paper manufacturers say their customers are increasing inventory in response to an announced 10

percent price increase planned for early March. Paper manufacturers say customers expect to be able to pass roughly 50 percent of this price increase on to consumers. High petroleum prices have increased the price of resin and box liners.

Inventories are low for fabricated metals, with shortages of scrap steel becoming more pervasive. Producers of fabricated metals report that input commodity prices have risen sharply. Primary metal producers also report concerns about shortages of inputs, including copper and scrap steel. Producers of primary metals report that soaring input prices are pushing up selling prices, although one contact said profits are up as well. High tech firms report that inventories are at desired levels and, while overall prices were sluggish, there were some increases in semiconductors prices.

Many contacts expressed continued concerns about high insurance costs but say the rate of increase has subsided. Some industries also reported concern about the increased cost of state unemployment insurance and municipal real estate taxes.

Labor Market

There were more reports of hiring in both the service sector and in manufacturing, although reports remain scattered, and there is little pressure on wages. Temporary service firms say competition for business remains stiff and that wages have yet to recover from declining during the recession. One client reported that average salary for temps has fallen 2.7 percent year over year.

Manufacturing

Manufacturing activity picked up. Producers reported strong demand for food products, primary and fabricated metals. Apparel producers reported increased demand and noted that the downward pressure on selling prices had forced them to increase outsourcing. Demand for lumber was up. Paper producers report some signs of strengthening sales, including an increase in box shipments, but it is difficult to gauge the overall change in demand because some box plants are closing. The long-term outlook for this industry is pessimistic because international competition is reducing overall demand. Unfavorable weather conditions dampened demand for some construction-related products, including stone, brick and glass, and slightly inflated inventories.

High-tech manufacturing conditions continue to strengthen. Manufacturers of electronics and communications devices said that shipments have picked up and strength in orders suggests continued strong activity in the second quarter. Demand was reported to be coming from a broader area of the world with some pickups occurring in Europe and Latin America and continued strength in North America and Asia.

Petrochemical activity was up, including increases in demand, capacity utilization, and margins for ethylene, polyethylene, propylene, chlorine and PVC. Stronger U.S. industrial activity helped boost demand, but sales were also stimulated by major outages in Europe and Venezuela. Activity is expected to weaken some as these outages are restored and as a new ethylene plant starts up on the U.S. Gulf Coast. Strong demand for heating oil and gasoline boosted refining activity and profits. Imports of refined products were at the top of their five-year average.

Services

Demand for legal services is unchanged. Bankruptcy work continues to slow, while litigation and real estate remains strong. Legal contacts report hearing increasingly positive

attitudes from clients, yet some uncertainty lingers. Demand for accounting/consulting services is strong and is up from last quarter. There is increasing interest in transactional work, capital raising and IPOs.

Demand for temporary staffing services is improving slowly. There continues to be strong demand for workers to supply the health care industry, and demand for workers to supply most other sectors has bottomed out. A lot of call center work and some IT (programming) jobs are being sent overseas, though there continues to be rising demand to provide call centers in some regions.

Trucking firms reported a seasonal drop in demand but expect activity to pick up seasonally. Demand for rail shipments was robust and surpassed shipping activity levels both year-to-date and during the last four weeks across all categories except for motor vehicles. Demand was particularly strong for shipments of grain and to support ocean freight. The airline industry remains very competitive. Some airlines report improved demand while others report that demand remains soft.

Retail Sales

Retailers report strengthening sales in most categories. Contacts are cautiously optimistic that sales will continue to strengthen, with one noting that consumers are willing to spend on more frivolous products. Auto dealers report unseasonably low demand that has left them with high inventories, lower selling prices and slimmer profit margins. Manufacturers continue to increase incentives to keep sales from declining further.

Construction and Real Estate

Contacts say the long downward trend in office demand seems to have reversed in the major metros because rents are declining less rapidly. Capital demand for real estate remains especially strong in Dallas/Fort Worth suggesting investor optimism remains high. Commercial developers say there is steady demand for retail, healthcare, and school buildings.

Apartment markets continued to weaken, with Dallas/Fort Worth and Houston posting the lowest occupancy rates in a decade. Rents are still falling, and concessions remain prevalent. Single-family construction continues to rise at a good pace. Competition has kept a lid on home prices despite increases in some building materials.

Financial Services

Contacts say that deposit growth has slowed, which they attribute to money flowing back into equity markets. Several respondents commented that CDs and other instruments are being liquidated. Overall lending activity has been unchanged; mortgage activity is down, mostly because of a drop in refinancings, but commercial and industrial activity has picked up and consumer categories remain positive but unchanged.

Energy

Although the industry is expressing optimism about market conditions, there was little change in drilling activity. The U.S. rig count held steady near 1100 working rigs through the first six weeks of this year, almost exactly equal to the average for the second half of 2003. Activity weakened in the Gulf of Mexico to fewer than 100 working rigs on the U.S. side, although utilization rates and day-rates for rigs working in the Gulf as Mexico have picked up slightly in recent months, largely because of increased activity on the Mexican side of the Gulf. As Mexico has added 20 offshore rigs to its drilling programs in the last 12

months, it has drawn rigs out of U.S. waters. International activity continues to slowly improve as it continues to shift from the U.S. Gulf of Mexico and the North Sea to the Middle East and former Soviet Union.

Agriculture

Cooler temperatures and snow slowed growth of winter pastures, but contacts are optimistic because the snow helped soil moisture. There were no reports of serious damage to crops or livestock from the freezing temperatures. Bad weather dampened 2003 cotton yields but higher cotton prices were received for the crop. Citrus producers reported a good crop. Cattle producers noted that the "mad cow" scare did not affect beef demand or prices as much as expected.

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Twelfth District--San Francisco

Reports from Twelfth District contacts indicate that the economy continued to expand soundly in January and early February. Consumer and producer prices generally were stable, although respondents noted increases in some energy and material costs. Respondents indicated that hiring activity in recent weeks was mixed, with moderate expansion of payrolls in retail, construction, agriculture, and high-tech manufacturing, and little new hiring in banking and the rest of manufacturing. Wage and salary increases remained restrained, with total compensation continuing to rise more noticeably. Sales of retail merchandise showed modest growth. Manufacturing activity in the District continued to improve, driven in part by an increase in demand for information technology upgrades by firms. Business conditions for cattle ranchers in the District recovered to some extent in recent weeks as fears surrounding mad cow disease apparently abated; other District agricultural and natural resource businesses faced stable conditions. Respondents noted solid house price appreciation and a brisk pace of new home construction in most District markets. Commercial real estate markets stabilized further. Reports from District banking contacts indicated that demand from businesses for commercial and industrial loans improved slightly from the previous survey period.

Prices and Wages

During the most recent survey period, District contacts generally noted little change in prices other than for energy products and certain raw material inputs, such as steel and nonferrous scrap metal. Several respondents reported that stiff competition, particularly among domestic businesses, continued to hold down final sales prices. In the telecommunications industry, competition among rival technologies and excess inventories restrained prices for wireline telecommunications providers; cable service providers, on the other hand, were able to increase prices somewhat after several months of flat rates.

Wage and salary pressures in the District remained modest in recent weeks. The costs of medical and workers' compensation insurance premiums rose further, however, particularly in California. According to respondents, increases in non-wage labor costs generally constrained hiring of full-time employees throughout the District, while hiring of temporary workers strengthened further. Indeed, the division of healthcare premium costs between employers and employees is a central issue in the labor strikes among grocery workers in Southern California and construction workers in Hawaii.

Respondents indicated that hiring activity since the last survey period was mixed. Contacts in banking and manufacturing, with the exception of high-tech manufacturing, generally reported little new hiring, while those in retail, construction, and agriculture noted moderate increases in payrolls. Looking ahead, most contacts expect little change in hiring activity in the near future, with the exception of contacts in high-tech manufacturing and retail, who expect the rate of hiring to pick up from its pace in recent weeks. Those contacts expecting an increase in hiring generally attributed it to improving business conditions. Those contacts expecting no change or a slowing of hiring, though, generally pointed to productivity gains stemming from the use of IT and other technologies which allow businesses to meet product demand without substantial increases in staffing.

Retail Trade and Services

District contacts indicated that sales of retail merchandise showed modest growth in the most recent survey period, particularly for mid-range department stores. An increase in consumer demand fueled increases in unit sales despite somewhat less discounting by retailers; inventory control generally was tight. Automobile dealers reported that sales of new and used domestic brands slowed a bit, while sales of imports performed better than domestic sales.

Business conditions in the services sector continued to improve in the District. Demand strengthened for media and high-tech services. The increased demand for high-tech services was reportedly due in large part to replacement and upgrading of information technology equipment by firms. Demand for preventative and outpatient healthcare services edged up further. Conditions in the District travel and tourism sector remained strong. Favorable snow conditions aided winter tourism activity in several areas of the District. Hotel occupancy rates improved and allowed many hotels to raise rates.

Manufacturing

District manufacturing activity picked up further in January and early February. Sales of semiconductors and other high-tech products strengthened, driven in part by increased business spending on information technology upgrades. Low inventory and high capacity utilization have led to modest increases in prices for these products. District apparel makers reported increased new orders and expansion of inventory levels, although capacity remained ample. The availability of raw materials remained uncertain for some industries in recent weeks; several manufacturers noted that prices for inputs, such as metals, escalated as a result of short supply.

Agriculture and Resource-related Industries

On balance, conditions in District agricultural markets remained stable in the most recent survey period. Prices for beef have firmed a bit in recent weeks, halting their steep decline following the mad cow incident in the state of Washington; however, prices have fluctuated recently due to uncertainty regarding export markets for beef and beef products. Prices for most other agricultural goods reportedly were stable and inventories generally remained in balance. Agricultural exports were helped by the depreciation of the dollar relative to several foreign currencies. In the energy sector, natural gas producers operated at close to full capacity in recent weeks, pushing up wholesale prices. Contacts indicate that large investments are currently being made to expand generation capacity.

Real Estate and Construction

District residential real estate markets generally were robust in January and early February. According to contacts, a limited supply of homes for sale combined with low mortgage interest rates led to solid price appreciation, though there are signs that appreciation may have slowed somewhat. Construction of new homes, particularly low to moderately priced homes, expanded further in recent weeks in most parts of the District. Contacts reported that skilled construction workers, such as carpenters and cement masons, were scarce in some areas. In Hawaii, the strike by workers of major concrete firms in early February reportedly delayed construction of major residential, retail, and public sector projects. As for commercial real estate, office vacancies and lease rates improved slightly in most District markets.

Financial Institutions

Contacts reported conditions in the banking sector to be generally healthy and stable in January and early February. Several respondents indicated that demand for commercial and industrial loans was up modestly from the previous survey period. As for residential real estate, contacts reported that mortgage loan volume, particularly for refinancings, was unusually low in December and January, though activity was higher than expected in early February.

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