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Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

April 1999

**SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS**

April 1999

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SUMMARY*

District reports indicate that the U.S. economy continues to operate at generally strong levels and to expand at a moderate pace. Consumer spending remains healthy, led by strong motor vehicle sales. Most Districts noted improvements in manufacturing activity; however, weak foreign demand is a problem for some industries in some regions. Both residential and commercial construction remain at high levels, although some slowing in the rate of expansion was noted in several Districts. Reports on agriculture have been mixed, while the outlook in the energy sector has improved. Loan demand is generally described as strong in many areas of the country. Most Districts continue to report tight labor markets, but these conditions are apparently not often translating into higher wages; however, there are reports that non-wage compensation is increasing. Prices generally remain stable, with the exception of oil and gas, and some building materials, which are in short supply.

CONSUMER SPENDING

Most areas of the country experienced year-over-year retail sales gains during March and April. Inventories continue to be balanced. Many Atlanta and Chicago retailers reported that the early Easter holiday shifted purchases into March while weakening April sales results. New York and Dallas reports indicate that sales growth has moderated since January and February, while sales have improved from earlier in the year in the Kansas City and Philadelphia Districts. Retailers in the Cleveland, Dallas, Kansas City and Richmond regions expressed optimism going forward.

*Prepared at the Federal Reserve Bank of Atlanta and based on information collected before April 26, 1999. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Motor vehicle sales grew at a healthy pace in most Districts in March and early April. Sales were strong in the Richmond, Kansas City, Chicago, Philadelphia, and San Francisco Districts. In the Philadelphia District, sales of sports cars and luxury models increased, while sales of trucks and sports-utility vehicles held steady, demand was particularly strong for sports-utility vehicles in Dallas. Chicago reports that new and used light vehicle sales were robust. After a strong first quarter, some Cleveland dealers report a slowdown in early April.

TOURISM AND CONVENTION BUSINESS

The tourism and business travel sector continues to post strong numbers, according to most District reports. Tourist activity remains strong in most of Florida, according to Atlanta, but there is concern about a falloff in international visitors to south Florida. Gaming continues to thrive in Mississippi with large crowds packing a new resort. Richmond reports record attendance at Washington D.C.'s National Cherry Blossom Festival and an increase in popularity of coastal resorts. Inquiries are up substantially from a year ago for destinations in the Minneapolis District. Summer bookings are ahead of schedule in the St. Louis District.

MANUFACTURING

Most Districts report recent improvement in the manufacturing sector. Manufacturing is generally strong in Chicago. In Philadelphia, there is a "broad based improvement" for some manufacturers. Boston reports that the strongest trends are in medical and automotive equipment suppliers, and most manufacturers contacted expect business to expand in coming months. Recently in Richmond, factory shipments and new orders have risen sharply. Some manufacturers in San Francisco continued to be hampered by international trade conditions, but demand for computers and electronic components remains stable, and production of telecommunications equipment is at high

levels. Richmond and Atlanta report growing activity for makers of telecommunications and electronics equipment. Some industries that showed softness earlier in the year, such as industrial machinery components, have improved in Cleveland. Strength in housing markets and commercial construction is boosting orders for building materials in Atlanta, Philadelphia, and Dallas. In Minneapolis, while there are signs of expansion in the factory sector, the weak international economy is curtailing some firms' output. Foreign demand also remains weak for firms in Philadelphia. Chicago and Cleveland report that an inventory overhang has slowed an anticipated recovery in the steel industry. Apparel production and orders remain below those of a year ago in the Atlanta region, and some contacts there are not optimistic about the near-term outlook because of fierce foreign competition. Aerospace production has softened in the Cleveland District.

REAL ESTATE AND CONSTRUCTION

Reports on residential construction varied around the country. The pace of residential building remained brisk in the Cleveland District, with some recent improvement. New York also reported strong recent growth in permits. Home construction is described as "vigorous" in California. Minneapolis reported large year-over-year increases in housing permits in some areas. In Atlanta, new home construction was flat to up slightly since late 1998. Some parts of the Kansas City District experienced starts slightly below last year's pace. February permits in the St. Louis region improved from earlier in the year but remained below year-ago levels.

Overall, home sales continue at healthy levels and demand remains strong. In the Chicago District, existing home sales remained brisk in most areas, exceeding expectations. Home sales have strengthened since February in the Kansas City region, while Realtors in the Richmond District report significant increases in home sales. Many areas of the St. Louis region are being referred to

as a “sellers market,” and the New York housing market is described as “tight.” Boston markets are characterized by strong demand and improving sales. Most Realtors in the Atlanta District said that home sales were mixed in March and flat in early April.

Commercial construction continued at strong levels in most Districts, although there were a few reports of slowing activity. In the Atlanta District, continuing high levels of commercial building fell somewhat below the year-ago level. Construction is described as strong in the Chicago District and continues at a brisk pace in the San Francisco District. Occupancy rates stabilized during the first quarter in New York, while leasing costs escalated. Construction is running ahead of last year’s levels in the Minneapolis region, while development was recently mixed in markets in the Cleveland District.

FINANCIAL SERVICES

District reports on banking activity indicated that overall loan demand remains fairly strong. The Dallas, Atlanta, and Chicago Districts report that lending growth was robust. Lending increased in the Philadelphia, Kansas City, and New York Districts but declined in the St. Louis District and was mixed across sectors in Cleveland. Consumer credit grew strongly in the Dallas, Atlanta, and Chicago Districts, leveled off in the Cleveland and St. Louis Districts, and decreased slightly in the Kansas City District. Commercial loan demand was strong in the Richmond and Chicago Districts, expanded in the Philadelphia, Kansas City, Atlanta, St. Louis, and New York Districts, and flattened in the Dallas and Cleveland Districts. Mortgage demand grew in Kansas City. Refinancing slowed in the Richmond, Atlanta, and New York Districts.

Credit quality was little changed overall. In New York there was some tightening of standards for commercial loans, and delinquency rates fell on consumer loans. The quality of

business and consumer loans was good, and consumer delinquencies were down in Chicago. There have been no changes in credit quality, and consumer and commercial delinquencies remain low in Cleveland, and little change in credit standards in the Richmond region. Intense competition may have led to some relaxation in terms and covenants in the commercial sector in Atlanta.

AGRICULTURE AND NATURAL RESOURCES

Agricultural reports were mixed across the country in March and early April. In Minneapolis, agriculture is still in the doldrums, as depressed livestock, corn, soybean, and wheat prices continue to hurt farmers. While Texas livestock conditions remained mostly good, lack of winter preparation damaged some of the wheat crop. Farmers made good progress on spring tillage and planting in recent weeks reports the Richmond District, and in the Kansas City District the winter wheat crop remains in good shape, and growing conditions continue to be generally favorable. Reports from Chicago indicate that low commodity prices continued to adversely impact farmers as spring plantings began; sales of many agricultural products were hampered by weak export demand in San Francisco. Weather has been favorable for farmers, and crops are reported to be ahead of schedule for the season in the Cleveland District, while St. Louis reports that favorable weather conditions and abundant moisture levels have resulted in a winter wheat crop that is in mostly good-to-excellent condition.

The energy sector is stabilizing. Natural gas exploration has picked up recently, but oil exploration still remains weak in the Minneapolis District. In the Dallas District, drilling has not increased in response to higher oil and natural gas prices. After declining in March, the rig count in the Kansas City District began to edge up during the first few weeks in April, and Atlanta reports

that rising oil and gas prices have improved the outlook for Louisiana companies linked to the oil and gas industry.

WAGES AND PRICES

Most Districts continue to report tight labor markets, but there were no reports of significant pickup in wage increases. Some reports, however, indicate that firms are increasing non-wage compensation for higher-level personnel and are using hiring and retention bonuses to attract and hold on to skilled workers. In Chicago, concerns about labor shortages have become more pronounced. Shortages of qualified truck drivers have slowed shipping growth in Atlanta, St. Louis, and Chicago. In Minneapolis and New York, labor shortages have forced manufacturing plants to move to other regions. Tight labor markets in St. Louis are affecting many firms' plans for expansion or relocation, but wage pressures remain subdued. Labor shortages are adversely affecting builders in the Atlanta and Dallas Districts. Despite continued remarks noting tight labor markets in St. Louis, comments about wage pressures from contacts there have been "noticeably lacking."

Most prices remain stable. Building materials prices, especially for sheetrock, are increasing in the Atlanta, Kansas City, Cleveland, Minneapolis, and Boston regions. Contracted services costs have increased in New York. Low commodity prices in Minneapolis persist in depressing farm income and are curbing metal mining.

FIRST DISTRICT-BOSTON

Economic activity increased moderately in the First District in recent months. Contacts in the retail and manufacturing sectors report single-digit sales increases from a year earlier. Price reports are more mixed than they have been in the recent past. While retailers face falling or stable vendor prices and are not raising their own prices, manufacturers report that previously declining input prices have stabilized and a few are raising their selling prices. Strong demand is propelling increases in activity in residential real estate markets in the region.

Retail

Most retail contacts report sales growth from year-earlier in the low-to-middle single-digit range for the January through March period, a moderate pace in line with projections. Inventories are said to be at desired levels. Sectors of strength are mail-order retailing, office supplies, and office technology products.

Employment at respondent firms is either holding steady or increasing slightly. Most retail contacts report that wages are continuing to grow at a 3 to 6 percent pace. One exception is the consumer appliances sector; wages are rising 5 to 10 percent annually in this sector because the labor market for more highly skilled sales help is exceptionally tight. All retail contacts say that competitive pressures continue to restrain retail prices, while international economic weakness continues to drive down vendor prices. Gross margins are reported to be either increasing slightly or holding steady.

Retailers report that capital expansion plans have not changed since the first of the year. Looking forward, most contacts say that they expect steady economic growth to continue for the next six months, but they also express great uncertainty about the outlook beyond six months. They state that the future strength of the economy depends upon continuing growth in equity prices along with stable interest rates.

Manufacturing and Related Services

Most District manufacturing contacts report that recent business is up at a single-digit rate from a year ago. The strongest trends are reported for medical and automotive equipment, construction supplies

and tools, printing and publishing, and equipment servicing. Contacts indicate declining demand for aircraft parts, machine tools and lighting equipment. Reports regarding the semiconductor industry are mixed; some firms report continuing weak demand and others now note a pickup.

Makers of consumer goods and component parts say that Asian demand for their products is increasing. However, most suppliers of heavy capital and construction-related equipment say their Asian sales remain sluggish.

Manufacturers report that various input costs that had been falling are now stabilizing or rising; the list includes aluminum, copper, silicon, oil-based products, chemicals, paper, and leather. Most other materials costs remain steady. Manufacturers' selling prices are little changed for the most part, and some equipment and machinery prices continue to fall as a result of customer pressures. By exception, a manufacturer of residential building materials and a food processing firm report price increases in the range of 3 to 5 percent because of higher input costs.

Most contacts have made very little adjustment in the size of their domestic workforce in the past year. However, companies have hired more employees for printing, publishing, and equipment servicing operations and plan to continue to do so. Expectations of improvement in the semiconductor industry and weakness in aircraft markets also are causing adjustments in production worker headcounts. Most manufacturers contacted are granting overall pay increases of 4 to 5 percent. Higher increases are reported for technically oriented personnel, while lower increases are the norm in situations where cost reduction is a top priority.

Only one-quarter of the contacts plan increases in capital spending this year. Most companies intend to reduce capital costs or to manage them more closely. Although some firms will build up inventories later this year, many indicate that cost concerns will temper their hedging against potential Y2K-related disruptions.

Most manufacturers expect their business to expand in coming months. However, they frequently mention risks or limits to growth, attributable in some cases to general economic factors and in

other cases to industry-specific forces.

Residential Real Estate

The residential real estate market in New England is very active. Contacts report strong demand, with the number of sales rising in many places. Several contacts cite supply shortages, and the number of listings is much lower than a year ago.

Activity in the Greater Boston area and southern New Hampshire is very strong. The number of 1999 sales in Massachusetts is higher than in the same period last year, with a record number of condominium sales. Contacts say prices in the Boston area have appreciated by 10 to 15 percent from a year ago.

Southern Connecticut is also very strong and Fairfield County has reported a record number of sales this year. A contact in Hartford reports a small increase in sales of existing homes, but a significant increase in new construction. Prices in Hartford have risen modestly during the last year. Sales have also increased in Rhode Island, where the number of listings is 40 percent lower than a year ago, while prices have increased only moderately.

Demand is expected to stay high throughout New England. Shortages of supply, both of existing homes and of land for new construction, may lead to further price increases.

Investment management

Investment management respondents in the First District increased employment in the first quarter of 1999 and plan to increase employment during the rest of the year. Respondents are hiring customer service representatives, fund accountants, and technology workers. Some difficulties are reported in attracting and retaining personnel in technology and accounting, especially at the entry level.

SECOND DISTRICT--NEW YORK

The District's economy retains significant upward momentum, along with generally stable prices. Retailers report that sales have been on or above plan in March and April, though growth has moderated from the first two months of the year. Housing markets have tightened significantly in early 1999, especially in New York City. Following sharp improvement in 1998, office markets in and around New York City appear to have stabilized in the first quarter of 1999.

Regional purchasing managers report a strong pickup in manufacturing activity in March, along with declining commodity prices but continued inflation in costs of contracted services. In general, there are increasing signs of labor shortages throughout the District. Local banks report some moderation in loan demand growth, tightening credit standards on commercial loans, and sizable declines in delinquency rates—especially on consumer loans.

Consumer Spending

Retailers report that sales continued to run above plan in March and April, though most report some slowing in momentum compared to the prior two months. Overall, same-store sales for March and April combined were up by roughly 5 percent on average, though individual gains ranged from 1 percent to nearly 10 percent. Discounters continued to out-perform department stores. In general, contacts report tepid sales of seasonal merchandise (attributed to cool weather), but brisk sales of home goods, electronics, appliances, and home office equipment. Most contacts report that inventories are at satisfactory levels, though there was occasional mention of stockouts in certain categories. Retailers maintain that they are well prepared for Y2K and have no plans to build extra inventories.

Most retailers note little or no increase in wage pressures. One chain indicates that it is raising entry-level pay scales and accelerating salary increases to reduce turnover; however, the overall impact on salary costs is said to be modest. Retailers report modest declines in selling prices, on balance, as

lower merchandise costs and increased productivity have more than offset moderate wage increases.

Construction & Real Estate

The Second District's housing market appears to have gained momentum in recent months. Single-family permits in New York and New Jersey continued to climb in the first quarter, rising 10 percent (seasonally-adjusted) from fourth-quarter levels. Multi-family permits were up sharply in the first quarter, rising 14 percent from fourth-quarter levels and 50 percent from a year earlier.

A leading New York City realtor reports that prices of prime Manhattan co-ops and condos are "going through the roof," while year-to-date unit sales are up roughly 35 percent from 1998 levels. As a further sign of tight market conditions, spreads between asking prices and bids are said to be at record lows. The high end of the market is especially tight as dwindling supply and strong demand has priced even some families with "high six-figure incomes" out of the market.

Homebuilders in New Jersey report that buyer traffic has slowed from exceptional January-February levels, but that sales have remained strong. Moreover, the average price of a comparable new home rose by 13 percent between late 1997 and late 1998, largely reflecting rising land prices—one industry expert notes that there is "almost no inventory of available land." There has been no letup in the remodelling boom, especially at the high end of the market.

Commercial real estate has stabilized this year, following torrid growth in 1998. Office vacancy rates in the New York City area held steady in the first quarter—rates edged down in Lower Manhattan, Fairfield County, and Long Island, but rose sharply in Westchester County. Manhattan office rents rose at a 5-9% annual rate in the first quarter but were still up 20% from a year earlier.

Other Business Activity

Regional purchasing managers' surveys indicate a strong pickup in manufacturing activity in March, following a slump in January; continued strength was reported in non-manufacturing sectors.

Buffalo purchasing managers report a strong pickup in production activity in March, along with steady and moderate growth in new orders and employment; commodity prices declined, though at a more subdued pace than in February. New York purchasers report a further acceleration in the manufacturing sector in March, following a strong rebound in February. In non-manufacturing sectors, growth returned to trend, following a sharp pickup in February. Prices paid by both manufacturers and others fell substantially in March; however, inflation in prices of contracted services has broadened to a wide range of sectors: architectural, computer, construction, cleaning, painting, and temp services.

There are signs of increasingly tight labor market conditions. A large employment services firm reports that while demand for temps has softened in recent months, the supply of temps has all but dried up; however, demand for permanent employees remains strong except in the manufacturing sector. This contact also reports that turnover has increased in the New York City area, with people increasingly moving into better-paying positions at other firms. Even in western New York State, where economic growth has been sluggish, labor shortages appear to be hindering growth: for example, a 120-technician electronics plant slated for Niagara County will instead be built in Florida, with the firm citing staffing problems—it couldn't find enough electronics technicians even after advertising for nearly one year.

Financial Developments

According to a survey of senior loan officers at small- and medium-sized banks in the District, loan demand grew across all categories, though at a more subdued pace than in the last survey. However, many banks note decreases in refinancing activity. Bankers report little change in credit standards on consumer loans and residential mortgages, but some tightening in standards for commercial loans. Interest rates on loans increased, especially for residential mortgages, while average deposit interest rates continued to fall. Delinquency rates fell for all types of loans—in particular, more than half of the banks surveyed note falling delinquencies on consumer loans.

THIRD DISTRICT - PHILADELPHIA

Third District economic activity continued to advance in April. On balance, manufacturers reported increases in shipments and orders during the month, and the number of firms noting slower business decreased compared to the first quarter. Retailers generally said sales remained on an upward track, although the rate of gain eased after Easter. Auto sales have been steady and above the rate recorded in the early spring of last year. Bankers noted a pickup in business lending and a continuing high rate of mortgage activity. Consumer loan volume outstanding has been virtually steady.

Looking ahead, Third District business contacts see further growth.

Manufacturers anticipate a continued increase in orders, which they expect to fill without putting pressure on their production capacity. Retailers foresee a relatively steady upward trend in sales. Bankers expect business lending to grow modestly through the year, but they do not expect consumer lending to move up significantly.

MANUFACTURING

Manufacturers in the Third District reported a rising pace of activity in April. Shipments and orders were increasing at just over one-third of the firms contacted during the month and were steady at slightly less than half of the firms. There were fewer reports of slower business in April than in earlier months of the year. The improvement was broad-based. Among major industry groups, manufacturers of apparel, fabricated metal products, lumber, and building products posted particularly good results. Only

producers of primary metals saw business ease in April. A further sign of strengthening demand for manufactured goods is the rise in order backlogs at area plants in the past two months, after several quarters of slackening. There were a few reports of increased prices for inputs among firms polled in April, but most companies indicated that prices of both the goods they purchase and their own products have been steady.

Third District manufacturers selling in overseas markets report that foreign demand, especially in Asia, remains low, although they indicate that conditions there no longer appear to be weakening. Domestic demand is generally described as improving. Overall, manufacturers in the region expect further growth in orders, and they expect production to keep up with the increase in demand.

RETAIL

Retailers in the Third District reported a healthy pace of sales in March and April, with year-over-year gains in both months. Several merchants said the rate of increase eased after Easter, in the usual seasonal pattern, but the basic upward trend remained intact. Sales of spring clothing, home furnishings, and jewelry were described as especially strong. Department stores reported better results in March and April than they did earlier this year, and discount and specialty stores continued to post high sales rates. Despite generally meeting or exceeding planned sales rates, store executives said they were keeping inventories at conservative levels. According to store executives, their caution reflects a continuing emphasis on overall cost control. But one executive at a large regional chain said he anticipates stepped-up purchasing later this year in response to expected price reductions from some suppliers.

Auto dealers said sales for the past two months have been running fairly steadily above the year-ago rate. Sales of sports cars and luxury models have increased somewhat recently, while sales of trucks and sport utility vehicles have been steady. Most dealers indicated that their inventories have been at appropriate levels, but a few said they have been unable to obtain as many of the more popular vehicles as they could sell.

FINANCE

Third District bankers interviewed in April indicated that lending was on the increase. Most reported recent gains in business loans booked, especially to middle market firms, and several bankers said applications for commercial loans were still rising. Consumer credit has been flat, according to most of the bankers contacted for this report. Several noted that individuals were consolidating outstanding debt into home equity loans. Banks were also increasing mortgage lending for home purchases, although this has not been reflected in bank balance sheets because many of the new mortgage loans are sold in secondary markets. Bankers said they have been conservative in commercial mortgage lending, but some noted that other types of investors, especially pension funds and insurance companies, had stepped up commitments in the region recently.

Third District bankers generally expect continued growth in demand for commercial loans. They say current and prospective business borrowers anticipate continued moderate growth in sales and are looking to finance the expansion of current operations as well as the start-up of new lines of business. Bankers are less optimistic that consumer lending will accelerate, but they see no signs of a significant retrenchment in borrowing by individuals.

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FOURTH DISTRICT - CLEVELAND

General Business Conditions

The Fourth District economy continues to perform at a high level. Some pickup in manufacturing production has been experienced while retail and construction activity remain quite strong.

District temporary employment agencies indicate that a lack of workers continues to hamper their ability to meet demand resulting in some added upward wage pressures. Likewise, wage growth appears to have accelerated slightly for workers under collective bargaining agreements; the average increase has inched up from 3% to 3½%, reaching 4% in some cases. Inflation protection is not a major concern in current contract negotiations. Some cost of living adjustment clauses have been replaced with performance bonuses, while others are activated only when inflation exceeds 3% per year. The length of contracts is mixed, with some moving back toward the more standard 3-year duration, while others average between 4 and 5 years.

Weather has been favorable for District farmers, with plenty of moisture for young crops. Most crops are reported to be ahead of schedule for the season.

Construction

Commercial construction activity in the first quarter of 1999 varies by region. Contractors in the Cleveland market report markedly less activity than in the previous year, and some skilled tradespeople, such as bricklayers, have been laid off. Sources in this region indicate that weather fluctuations may be to blame for the slower pace of construction in recent weeks. Commercial builders elsewhere in the District report

that activity is outpacing levels of a year ago; commercial construction in Pittsburgh, for example, is characterized as “booming.” Residential construction continues at a brisk pace, improving a little from its already high level of activity.

Worker shortages are being reported in the Pittsburgh and Cincinnati regions, with masons, roofers, and framers in especially short supply. Some raw materials shortages, including drywall, lumber, and concrete have been noted, and prices have edged up in these markets.

Industrial Activity

Capital goods producers report a pickup in demand for heavy vehicles, with both sales and orders on the rise. Some industries that showed softness earlier in the year, such as industrial machinery components, appear to have improved. Steel production also seems to have rebounded in the past month, but production levels remain substantially below this time last year. Overall demand for steel is strong, but the industry continues to struggle with high inventories stemming from a surge in imported steel. Strength in the housing market has helped to boost sales of equipment for residential construction. A notable weakness in the District’s manufacturing sector is aerospace-related production, which has softened following a very strong fourth quarter.

Prices of industrial materials have shown mixed patterns in the past few months. A larger percentage of purchasing managers indicate some upturn in raw commodity prices recently, although some products, namely aluminum and certain steel products, continue to experience downward price pressures. Manufacturers report no significant labor market or wage developments in the past two months.

Consumer Spending

Retailers report very strong sales in March, boosted in part by an earlier-than-usual Easter holiday. Retail contacts are optimistic that this sales strength will continue through the remainder of the spring. A large percentage of the District's retailers report expansion plans for 1999. These plans may be hindered, however, by a labor market that many see as very tight.

District auto sales in the first quarter were widely regarded as strong, generally exceeding sales volume for this period last year. Some dealers note a slowdown in April sales numbers following a "feverish" March pace. Some dealers are struggling to keep pace with the strong sales volume, noting a less-than-average inventory position. Shortages have been centered in sport utility vehicles and light trucks.

Banking and Finance

Lending activity in the District is mixed for both commercial and consumer loans. Demand for consumer loans has leveled off, as is typical for the season. Demand for commercial loans has softened for some institutions.

There is no change in credit quality. Consumer and commercial loan delinquencies remain low and generally unchanged over the past few months. No changes in credit standards have been reported. Still, the spread between borrowing and lending rates remains narrow, and competition for borrowers is considered fierce by industry sources.

FIFTH DISTRICT – RICHMOND

Overview: The Fifth District economy advanced at a quicker pace in the weeks since our last report. Retailers reported bustling sales—especially of big-ticket items—and services-sector activity rebounded from several months of sluggishness. Manufacturing continued to strengthen; both shipments and new orders rose sharply in recent weeks. In real estate markets, the pace of development and sales remained rapid, and financial institutions across the District reported generally strong lending activity. Labor markets tightened further but, outside of manufacturing, wages and prices increased only moderately in most sectors. In agriculture, farmers made good progress with their spring planting, but crop prices remained low.

Retail: Retail sales surged in March and early April as warm weather and Easter holiday merchandise lured shoppers to District stores. After two months of lackluster performance, big-ticket sales rebounded in recent weeks with sales of automobiles and computer equipment being particularly strong. One contact in Washington, D.C., noted that despite Y2K concerns, lower computer prices enticed buyers; in his words, "It's just too tempting for businesses to upgrade in this price environment." Retailers increased their payrolls since the last Beige Book and wages rose somewhat faster, although retail prices changed little. Contacts remained optimistic regarding future sales; a manager at a general merchandise store in Charlotte, N.C., said that "there is no indication that shopper interest will slow any time soon."

Services: Revenues at services firms expanded in recent weeks after several months of moderate declines. Robust activity in real estate markets helped boost revenues at law and mortgage-service firms. Resorts and hotels also reported higher receipts. Computer consulting firms experienced healthy demand as clients addressed Y2K concerns and upgraded networks. Employment increased in March and early April for the first time in several months. Wage growth, however, remained moderate and prices eased slightly.

Manufacturing: Manufacturers' shipments, new orders, and capacity utilization rose more quickly in recent weeks. Contacts in the lumber, electronics, and plastics industries reported particularly strong business activity. Furniture manufacturers were upbeat as well; several mentioned brisk sales at the recent International Home

Furnishings Market in High Point, N.C. Port representatives at Charleston, S.C., and Hampton Roads, Va., noted a resurgence in exports in March. In labor markets, wages and the manufacturing workweek rose, but employment was little changed. Reports of higher prices were somewhat more widespread. A contact at a large tobacco processing firm in North Carolina told us that his company's prices would rise because of the costs of settling recent litigation. In addition, an industrial packaging supplier in Greenville, S.C., noted that paper and film prices were headed upward—the first increases he had seen in three to four years.

Finance: District loan officers reported that overall lending activity remained strong in March and April despite less rapid growth in mortgage refinancings. Commercial lending continued to be buoyed by a vibrant regional economy and attractive interest rates. Residential mortgage lending was boosted by a solid housing market but was slowed by dwindling demand for refinancing; as a Roanoke, Va., realtor put it, "Everybody has already refinanced." Although several bankers reported taking a closer look at loan applicants' credit worthiness, credit standards were little changed.

Real Estate: Residential real estate activity continued to expand at a solid pace in the weeks since our last report. Realtors in many areas reported substantial increases in home sales, particularly those in the upper price brackets. In Baltimore, one realtor described upper end residential activity as "busting at the seams." Home prices were also rising in Richmond and northern Virginia. Realtors in those areas reported multiple contracts and sales prices of 10 to 15 percent above asking prices in some areas. The robust residential building activity has strained materials resources in many areas of the District. Drywall, in particular, was reported to be in short supply in several locations.

Commercial real estate activity remained at a high level in most areas, although there were fewer signs of an overheated market. A Richmond, Va., realtor indicated that things have remained "fairly quiet" while several realtors in the northern Virginia area indicated that class A office space is generally more available. Retail leasing activity picked up in North Carolina; a Raleigh, N.C., realtor described the restaurant business there as "getting out of hand." In contrast, a developer in Charlotte, N.C., expressed concern about possible office market overbuilding in that area.

Tourism: Tourist activity rose throughout the District in March and April. Bookings at area resorts for the Easter holiday were much stronger than a year ago, partly

because of the increased popularity of "spring break" vacations at coastal resorts. Hoteliers also attributed the pickup in resort activity to higher consumer confidence and unseasonably favorable weather. In Washington, D.C., mild weather and publicity about beavers helped draw a record 700,000 to the National Cherry Blossom Festival.

Temporary Employment: The demand for temporary workers escalated further in the weeks since our last report. Workers were said to be in short supply, and those with computer programming skills were "calling the shots" in hiring and wage negotiations, according to a recruiter in Columbia, S.C. In the Carolinas, the demand for production workers strengthened as manufacturing has rebounded in recent months. A Charlotte, N.C., employment agent said that finding qualified workers was like "finding an oasis in the desert—nearly impossible." Wages grew at a quicker pace, but not as rapidly as many contacts had anticipated. Future demand for workers was expected to remain high, and many contacts expected substantial wage hikes within the next six months.

Agriculture: District farmers made good progress on spring tillage and planting in recent weeks. Planting was reported to be on schedule for most crops. Farmers in some areas need additional rainfall, however, for proper germination and development of crops. Nevertheless, topsoil moisture levels were adequate in most areas, although moisture levels in North Carolina were drifting towards short. Crop producers' primary concern remained low grain and soybean prices. In the livestock sector, hog prices have rebounded, but hog producers may face an uncertain future because of strained finances resulting from last fall's low prices.

SIXTH DISTRICT – ATLANTA

Summary: The Southeast economy continues to grow moderately, but contacts' outlooks have become less upbeat since our last report. April retail sales were weaker than a month earlier, partly because of an early Easter that shifted many purchases into March. Recent reports on the tourism and hospitality sector have been very positive, but contacts in Florida have become more concerned about the international portion of the state's tourism sector over the next several months. Builders report single-family construction is still growing slowly, and non-residential construction declined somewhat in the first quarter. Bankers report continued strong loan demand, and firms indicate that funds are available. Factory production has increased slightly since our last report, but manufacturers' outlooks are less optimistic than before. Tight labor markets remain a problem for District firms, but significant wage increases are largely limited to skilled labor. Contacts generally anticipate few price changes over the next several months.

Consumer Spending: According to District retailers, March sales levels ranged from flat to up significantly, while April sales results were weaker. Several department store managers said that March sales benefited from an early Easter, which caused April sales to suffer. Discount department stores reported the strongest results. A majority of retailers said that sales were up slightly in the first quarter compared with last year. Similarly, a majority of contacts said that recent sales met their expectations and that inventories were balanced overall.

Tourism and Business Travel: The tourism and hospitality sector continues to post strong overall numbers, but the outlook is uncertain. Bookings for the cruise industry out of Miami have remained strong since Christmas, and prices are steady. Virtually all cruise lines have large ship construction projects under way. Tourism is robust in West Palm Beach and on Florida's southwest

coast, with hotel and motel bookings above last year's pace. However, there is concern about the falloff in international visitors to Miami and to the rest of the state. One contact noted that the decline suggests that Latin Americans may be traveling more within Latin America than in the past. Florida officials hope that wildfires will not slow tourism nor cause as much property damage as last year's fires. Gaming continues to thrive in Mississippi; crowds have been large at the Beau Rivage, Biloxi's newest and largest hotel/casino that opened in mid-March.

Construction: The pace of single-family home construction remains similar to our last report. Most District builders said that construction in late February and March was flat to slightly up on a year-over-year basis. New home sales were also flat to slightly up compared with the previous year, according to builders. The strongest reports came from Florida builders. There is little evidence of overbuilding in District markets. Realtors indicate that home sales were mixed during March, and most said that sales were flat during the early part of April. Both builders and Realtors expect construction and home sales to continue at the current pace for the second quarter.

The pace of commercial construction in the District declined slightly during the first quarter compared with last year. Office, industrial, and retail markets in the region generally remain balanced. Office and industrial vacancy rates have risen somewhat in several key markets, but the increase has been subdued.

Manufacturing: Factory activity picked up moderately since the last Beige Book report, with more contacts reporting increased production, new orders, and a longer factory workweek. New contracts continue to prompt District telecommunications equipment producers to expand output, and a manufacturer of electronic and electrical equipment has recently increased production

and employment. Continued national strength in housing and commercial real estate construction is boosting orders for District manufacturers of building materials. Contracts to build cruise ships could eventually be worth over \$1 billion to District shipbuilders, according to one contact. Rising oil and gas prices have reportedly improved the outlook for Louisiana companies, whose revenues are positively linked to the oil and gas industry. Production, orders, and the factory workweek are all higher than a year ago at a large Alabama paper mill. Less positively, apparel and steel production and orders remain below levels posted a year ago, and contacts are not optimistic about near-term prospects because of import competition. Manufacturers in a variety of industries are also slightly less positive than before about the outlook for their businesses in the coming months.

Financial: Bankers report that overall loan demand remains robust throughout the District. Consumer and commercial loan demand continues to expand modestly, and automobile loan demand has been strong. Mortgage applications and refinancings have declined slightly since our last report. Intense competition between lenders continues to motivate them to expand into lower-tier consumer markets and may have led to some slight relaxation in terms and covenants in the commercial sector. Supplies of funds appear to be ample.

Wages and Prices: Tight labor markets continue to create problems for a wide range of firms in the District. Shortages of entry-level laborers to fill food service and housekeeping jobs have hurt casinos and restaurants, and some restaurants have been forced to suspend operations because of a lack of workers. A shortage of truck drivers is limiting the number of trucks that companies in Alabama and Tennessee can add to their fleets. Residential builders in Georgia and Florida note acute labor shortages. Wages are reportedly not increasing significantly for unskilled workers; however, more reports indicate rising wage pressures for skilled, higher-level

personnel. Non-wage compensation is rising in many areas in the District. One contact reports double-digit salary increases to retain computer talent.

Prices are not expected to change much over the near term, with a few exceptions. Several companies are pressuring suppliers to keep prices stable and continue to squeeze margins to remain competitive. Building material prices, however, are increasing, partly because of strong residential construction markets and to a shortage of drywall. As before, reports indicate rising health insurance premiums.

SEVENTH DISTRICT—CHICAGO

Summary. Economic conditions in the Seventh District remained strong in March and April, similar to our last report. Retailers continued to reap the benefits of confident consumers and strong home sales. Overall construction activity appeared to gain momentum in spite of shortages of skilled labor and some building supplies. Again, manufacturing activity was strong, but mixed, as some of the region's mainstay industries continued to struggle. Lending activity was brisk as demand for both business and consumer loans remained high. Concerns over labor shortages became more pronounced and there were a few new reports of intensifying wage pressures. Low commodity prices continued to plague farmers and a majority of the District's agricultural lenders reported slower farm loan repayments than a year ago.

Consumer spending. Overall consumer spending was strong in March and April, as consumers' confidence remained high. Retail sales in the first three weeks of April were robust, but relatively flat from a year ago, with most contacts suggesting that an early Easter shifted some of the month's sales to March. Retailers noted that women's apparel was selling well as were household items (appliances, home electronics, etc.) which continued to benefit from a strong housing market. Providers of household services (lawn care, cleaning, pest control, etc.) cited strong year-over-year sales growth. Contacts in the casual dining industry reported that business had bounced back in March and April, after some weather-related softness earlier in the year. New and used light vehicle sales in the District were robust, with one dealer noting a pickup in demand for lower-priced used cars. Most retail contacts attributed strong sales results to high consumer confidence in the economy, with one analyst suggesting that rightly or wrongly, people seem to think the economy is indestructible. Most contacts indicated that despite strong sales results and high consumer confidence, intense competition kept prices relatively flat at the retail level.

Construction/real estate. Construction activity remained robust as strength in commercial segments more than compensated for slowing growth in new home construction. Public infrastructure construction was reportedly strong in most of the District and is expected to increase further as more planned projects get underway with summer approaching. Development of retail space was also robust, but light industrial development (warehouses, etc.) was mixed. Development of office space began to show signs of life in the Chicago area as contractors restarted work on some projects that had been on hold for months. Demand for office space of all types was increasing in some large metro areas, allowing property owners to pull back on concessions. Housing market contacts continued to describe demand as very strong. Sales of existing homes remained brisk in

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most of the District, exceeding most realtors' expectations and setting records for some. One contact noted that some properties were being sold before they were listed with the Multiple Listing Service. A national survey of homebuilders suggested that new home sales in the Midwest remain very strong, but most builders contacted were expecting 1999 to be a little slower than last year. A building materials supplier reported that April lumber shipments were slightly above year-ago levels, but below expectations. This contact noted, however, that shortages in wallboard and labor were likely contributing to a slowing in demand for other inputs.

Manufacturing. Manufacturing activity remained strong in March and April, especially for small and medium-sized producers, but some key industry segments continued to struggle. The motor vehicle industry was again the region's star performer as national sales of both light vehicles and heavy trucks were described by contacts as "outstanding" and "exceedingly strong." Industry analysts were expecting April sales of light vehicles to come in only slightly below March's very strong results. Inventories of both cars and light trucks were generally in line with sales expectations, and some automakers were becoming bolder in their pricing by reducing incentives or allowing existing incentives to expire. Activity in heavy equipment remained mixed as construction-related equipment remained strong while the agricultural equipment sector was "still a disaster," according to one contact. The region's steel industry remained soft in March and April. Despite a dropoff in 1999, record imports in late 1998 led to substantial inventory overhangs which has slowed the industry's anticipated recovery. Some steel industry analysts, however, remained optimistic that production would rebound "very soon" and prices were reported to be recovering slightly from last year's declines. Capacity utilization rates were also increasing and expected to be above 80 percent by the end of April, up from fourth-quarter rates in the mid-70s.

Banking/finance. Lenders continued to report strong demand for both business and consumer loans. Overall volume on business lending was said to be rising, with one major bank noting strong merger and acquisition activity. Generally, the quality of business loans was again reported to be very good. One major bank, however, noted that the lingering effects of problems in East Asia led to slightly increasing defaults from borrowers in the steel industry. This contact suggested, however, that these developments were not a major concern. Lending on the consumer side also remained strong but reports were mixed. Some retailers suggested that consumers' balance sheets continued to improve as customers paid down their store-card debts and used more cash in their purchases. One large bank, however, noted a pickup in consumer lending as the positive consumer balance sheet effects of the recent boom in refinancing activity began to wane. Overall, most contacts suggested that consumer credit quality was good and delinquencies were down.

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Bankers continue to plan for the year 2000. The District's lenders are working with their customers to ensure that their capital needs will be met, and that credit products are appropriately priced. One large lender noted that it was attractively pricing longer-term CDs to ensure that adequate funds were available for an anticipated pickup in lending activity in the fourth quarter.

Labor markets. Labor markets in the Seventh District remained much tighter than the nation as a whole in March and April, as employers' concerns over labor shortages became more pronounced. A recent survey of businesses in Michigan revealed that over 50 percent of respondents in most areas believed that shortages of labor were lowering their output potential. Labor woes in the construction industry illustrate the problems other businesses face—an ongoing shortage of skilled labor is exacerbated by a shortage of qualified truck drivers, which has led to bottlenecks in the delivery of some construction materials. Rather than working their existing employees longer hours, District manufacturers continued to aggressively outsource some in-house functions (such as specialized legal services) and re-engineer production processes, according to one contact. Amid the very tight supply of and continued strong demand for quality workers, there were a few new reports of intensifying wage pressures. Contacts continued to note wage increases in entry-level positions, particularly for general industry workers, and one service provider suggested that performance reviews, and accompanying pay raises, were coming more often. There were few reports, however, that increasing wage pressures were translating into higher prices.

Agriculture. Low commodity prices continued to adversely impact District farmers as spring plantings began. In the first half of April, corn prices at central Illinois terminals were 15 percent below a year earlier, and soybean prices were down more than 25 percent. Hog prices stabilized in April, but remained well below the breakeven level, spurring some District farmers to reduce the size of their breeding herds. Low commodity prices have made it more difficult for farmers to pay off old debt and obtain new financing. In a recent survey of District agricultural banks, a majority of the respondents indicated that farm loan repayments were coming in slower than last year. However, one contact indicated his bank was able to finance marginal customers by obtaining loan guarantees from the Farm Service Agency. Spring planting has begun, but recent cool, rainy weather has put planting on hold in many areas. A survey by the USDA indicated that District farmers intend to hold corn acreage constant, relative to last year, but to increase the number of acres planted to soybeans by two percent.

EIGHTH DISTRICT - ST. LOUIS

Summary

Business conditions remain strong. Tight labor markets in most parts of the District are affecting many firms' plans for expansion or relocation. Wage pressures, however, remain subdued, and materials costs, except those affected by the recent surge in oil prices, have shown little upward movement. Housing markets are vibrant with the spring home buying season in full swing. Contacts see a shortage of warehouse space, especially in southern parts of the District. Loans outstanding fell at large District banks over the past two months because of a sharp drop in real estate loans during that period. With the planting of spring crops under way, moisture conditions in most states are generally adequate or in surplus. Planting progress is still on schedule.

Manufacturing and Other Business Activity

The biggest concern of business contacts in most parts of the District continues to be tight labor markets. More comments than usual indicate expansion plans being put on hold because of lack of available, qualified workers surfaced. In addition, contacts at several local economic development organizations noted that some prospective firms chose to locate elsewhere because of a limited labor supply or availability of warehouse space. The trucking industry has been especially vocal about labor shortages recently. Demand for its services has been increasing steadily, but there are not enough truckers to meet this demand. Nurses also seem to be in short supply around the District. In general, businesses continue to see growth in sales and remain optimistic about future prospects. Several family resort areas in the District, especially in central Arkansas, are reporting summer bookings that are ahead of schedule; expectations are for a strong season. On the other hand, farm equipment sales are reportedly down because of a slumping agricultural market.

Wages and Prices

Despite the continued intensity of remarks noting tight labor markets, comments about wage pressures have been noticeably lacking. Tire wholesalers, for example, are beginning to see their materials costs stabilize and labor costs flatten. A contact in the hotel industry, while noting high turnover rates and unfilled positions, reports it is not bidding for labor. In his view, the industry has added too much capacity and is poised for a slowdown. In contrast, some contacts in northern Mississippi are reporting increases in starting wages of slightly more than 10 percent.

Outside of energy-related items, there appears to be only moderate, if any, pressure on the prices of goods and services, while materials costs are flat or falling. For example, an insurer in the commercial and passenger automobile market reports difficulty in passing along cost increases as higher premiums. The printing industry sees prices and costs remaining stable this year. Contacts in the poultry processing industry report that lower feed prices are enabling them to add breeder capacity. A St. Louis-based metal fabricator noted considerable downward pressure on the prices of its manufactured products.

Real Estate and Construction

Residential real estate construction continues to grow in most parts of the District, after starting the year a bit slowly compared with a year earlier. Monthly permits issued in February jumped in most areas, although not enough to push activity in these regions above last year's levels. In some regions, new construction projects are taking almost two months longer than usual to complete because subcontractors are backlogged. Bids are higher, but margins are being squeezed because higher costs cannot be passed on.

The spring home buying season is now in full swing: The average number of days a house is on the market has plummeted, and sale prices have begun to rise. Many real estate

agents are calling this a seller's market, with some houses selling the day they are listed. In western Tennessee, on the other hand, an excess supply of starter homes (less than \$100,000) is reportedly available.

Commercial real estate agents continue to see excesses in the market, particularly of office and industrial space. Warehouse and distribution space, though, is extremely scarce in some areas.

Banking and Finance

Total loans on the books of a sample of large District banks declined 1.5 percent between mid-February and mid-April, after rising 1.9 percent during the same period one year earlier. The decline in total loans was due solely to a drop in real estate loans, which fell 4.6 percent during the two-month period. Commercial and industrial loans increased 6.2 percent, while consumer loans outstanding did not change.

Agriculture and Natural Resources

Corn, cotton, soybeans and winter wheat prices have changed little since our March report. Hog prices, however, were up modestly—although they remain more than 15 percent below a year earlier. Boosted by favorable growing conditions and abundant moisture levels, the winter wheat crop District-wide is in mostly good-to-excellent condition. Planting progress of the corn crop is ahead of schedule in most District states. The first-of-the-season look at the planting intentions of District farmers shows modestly more acreage devoted to corn in the northern portions of the District; on balance, soybean acreage is about unchanged. In the Delta region, though, farmers plan to plant more cotton and rice, with fewer acres devoted to corn and soybeans.

NINTH DISTRICT--MINNEAPOLIS

As we enter early spring, the overall Ninth District economy continues to flourish, although natural resource-based industries are still floundering. The forward momentum continues for construction, consumer spending and manufacturing. But low commodity prices persist in depressing farm income and curbing metal mining. Businesses would still like to hire additional workers and are facing some material shortages, which are causing isolated price increases. However, no general acceleration in wage and price increases is noted.

Construction and Real Estate

Construction and real estate remain strong across the region. "Two major projects have construction running way ahead of last year's pace," leads a Montana news article on the region's growing construction sector. Real estate has "never seen a better market," said a Twin Cities realtor association spokesman. "Sales prices are up 8.4 percent from year-earlier levels." Housing permits for the district increased 25 percent in February from year-earlier levels. Public works projects are planned across the region with highway construction remaining robust. In addition, construction contract awards in Minnesota and the Dakotas for February are up 12 percent from a year ago, reports a construction trade magazine. Shortages in dry wall, insulation and shingles are increasing building costs, a bank director reports. In addition, skilled and unskilled workers are still in short supply.

Consumer Spending and Tourism

Like construction, retail spending continues to grow across the district. A Minneapolis electronic equipment retailer reports strong sales in February and March compared to a year earlier. A major Minneapolis-based retailer said its March sales were up 13 percent from 12 months earlier, better than expected for most of its stores. In St. Cloud, Minn., retail employment recently picked up after a couple of years of little change. A mall manager in North Dakota indicates that February and March sales were up over 8 percent from a year earlier. In Montana, an economic development official reports vigorous spending at retail stores. Recent vehicle registrations in the Dakotas also increased moderately from year-earlier levels.

Tourism officials report a moderate to strong finish to the winter season and are optimistic for the summer. Two chambers of commerce in northern Wisconsin report little change for February and March compared to a year earlier. While skiing was up substantially in South Dakota compared to a year ago, snowmobiling was down. Montana reports strong year-to-year gains in skiing and snowmobiling. Looking ahead to the summer, inquiries about summer visits are up substantially for both Montana and South Dakota compared to a year ago.

Manufacturing

Manufacturing in the district still shows signs of expansion, but the weak international economy is curtailing some firms' output. A wood finishing company plans to increase employment 5 percent to 10 percent to meet increased demand for its products. A semiconductor package manufacturer reports strengthening sales over the last three months. A farm implement manufacturer is planning on transferring production from a Canadian plant to a North Dakota plant. A potato processing company intends to open a plant in the Upper Peninsula of Michigan, which could add 40 new jobs. However, "elements of the local manufacturing sector appear to be struggling," reports the *St. Cloud Area Business Outlook Survey*. The survey reports a decline in the average manufacturing weekly hours worked. In addition, a computer component manufacturer had temporary workforce reductions due to the weak international economy.

Mining and Energy

Metal-based industries remain depressed. In response to low metal prices and environmental legislation, only four major metal mines are operational in Montana compared to six a year ago, says a Montana Bureau of Mines and Geology spokesperson. In addition, due to continued weakened demand for domestic steel, a taconite pellet line at a major Minnesota mine remains closed as the spring shipping season begins.

Meanwhile, natural gas exploration has picked up recently but oil exploration still remains weak. Natural gas exploration is expected to increase this summer to about 200 test wells drilled in Montana, according to a spokesman for a Montana oil and gas organization. Meanwhile oil activity is depressed with only one rig working in North Dakota and only five in Montana compared to 12 and eight, respectively, a year ago.

Agriculture

Along with mining, agriculture is still in the doldrums, but growing conditions are good in parts of the district. Depressed livestock, corn, soybean and wheat prices continue to hurt farmers. Many producers are still storing crops in hopes of future price increases. Milk prices have dropped since January, which has dimmed the once bright spot of agriculture. In addition, over the last year agricultural land prices have decreased slightly in North Dakota and increased slightly in the rest of the district, according to the U.S. Department of Agriculture (USDA).

Favorable growing conditions, however, exist in parts of the district. South Dakota reports upbeat winter wheat conditions with 88 percent of the crop rated good or excellent. In contrast, Minnesota and Montana rated about 50 percent of the winter wheat crop as good or excellent. Moreover, the outlook for planting conditions is good. USDA crop reports indicate that topsoil moisture in South Dakota, North Dakota and Minnesota is nearly 100 percent adequate or in surplus.

Employment, Wages and Prices

Businesses still report difficulty finding and retaining workers. Some hospitals, for example, are having trouble filling nurse positions. Unemployment rates across the district are very low, including Minnesota's record low rate of 2.2 percent, seasonally adjusted, in March. Despite numerous job openings in Minnesota and the Dakotas, payroll employment growth has slowed, due to a lack of qualified applicants. Because of the unavailability of qualified labor, an aluminum parts manufacturer is planning to expand outside of the region.

Despite tight labor markets, no significant acceleration in wages is reported. A Bank director says that wages are the top issue in contract negotiations, with increases reported at about 3 percent to 4 percent. Several companies with expansion plans aren't prepared to offer high wages. In contrast, some other businesses are boosting wages to attract employees. A bank director reports that a drill manufacturer is starting high school graduates at \$8 an hour.

Prices remain stable overall, with increases in selected markets. A survey of Upper Midwest businesses and manufacturers indicates that only 20 percent of respondents were facing increases in input prices. Bank directors note price increases in dry wall and pharmaceuticals.

TENTH DISTRICT - KANSAS CITY

Overview. The district economy expanded modestly in March and early April. Retail sales were again outstanding, with vehicle sales rebounding nicely from slower activity earlier in the year. Construction activity remained strong, and energy activity may be poised for a turnaround following the recent jump in oil prices. Manufacturing activity held steady, although at a relatively weak level when compared with a year ago. In the farm economy, the winter wheat crop remained in good condition and growing conditions continue to be generally favorable. Labor markets in most of the district remained very tight, with wage pressures continuing to mount. Retail prices edged up, as did prices for some construction materials, while prices for several manufacturing materials fell as factories took advantage of cheap imports.

Retail Sales. Retail activity in March and early April remained strong, as sales compared with both recent months and a year ago continued to rise. Shoes sold exceptionally well during the Easter season, and sales of women's sportswear took off with the arrival of warm weather. Purchases of home furnishings were also stronger than normal. Inventories at most stores have leveled off over the last month, and managers are now largely content with current stock levels heading into summer. With consumers remaining upbeat about the national economy, retailers contacted in our survey were overwhelmingly optimistic about sales in coming months. Automobile sales picked up considerably last month from the slow activity earlier in the year, thanks in part to increased demand for used passenger cars. New trucks and SUVs remained the hottest sellers, however, and most dealers complained of shortages of these vehicles. Like most other retailers, auto dealers remain very optimistic about sales in the near future.

Manufacturing. Tenth District manufacturing activity held steady last month, albeit at a relatively weak level. Plants were operating at similar capacities – medium to high – as in our previous survey, but still well below levels posted a year ago. Manufacturing materials were generally available with lead times practically unchanged, and managers had little concern about

availability in the near future. Factories began modestly increasing inventories in March and early April, and managers were happier with current stock levels than in the recent past. The increases were small, however, and most survey contacts anticipate having to trim inventories in coming months as stiff competition from low-price imports continues.

Housing. Construction activity remained strong last month, although housing starts in some parts of the district were slightly below last year's pace. Nearly all builders expect even better performance in the months ahead. For the first time in several surveys, a majority of builders complained of difficulties obtaining materials, particularly sheetrock. Moreover, a large number anticipate further problems in the near future. Home sales in the district improved after weakening slightly in our previous survey, putting inventories of unsold homes at more comfortable levels. Mortgage bankers reported a decline in refinancing activity last month, as most people have already taken advantage of low rates. But demand for new homes remained steady, and most lenders are cautiously optimistic about future loan demand.

Banking. Bankers report that loans edged up and deposits increased modestly last month, reducing loan-deposit ratios. Commercial and industrial loans, commercial real estate loans, and residential real estate loans all experienced healthy growth, while consumer loans decreased slightly. Deposit growth was due to increases in demand deposits, NOW accounts, and money market deposit accounts. All respondent banks left their prime lending rates unchanged last month, and all expect rates to remain unchanged in the near future. Almost all banks maintained their consumer lending rates, and all expect to hold rates constant in the near term.

Energy. District energy activity continued to decline in March despite sizable increases in oil prices. However, the rig count began to edge up during the first few weeks of April as prices continued to rise, suggesting that the energy sector may be poised for a rebound. Most analysts believed that drilling would begin again when prices reached around \$16 per barrel. By early April, the price of West Texas Intermediate crude oil had jumped more than 40 percent since mid-

February, to roughly \$16.50 per barrel, putting the price above year-ago levels for the first time since early 1997. The rise in prices has occurred largely as a result of OPEC's recent announcement of production cuts, but also due to increasing concern over the war in the Balkans. Natural gas prices fell slightly in March and, despite moderate increases in April, remain well below year-ago levels.

Agriculture. The district winter wheat crop remains in good shape, and growing conditions continue to be generally favorable. Wheat pasture is also reported to be in good condition. The number of farm sales has not increased appreciably this spring, and values for district farmland continue to hold steady. Moreover, despite low commodity prices, bankers do not report any significant downward adjustment in cash rents. District bankers indicate that a small percentage of borrowers will not be extended credit this spring. In most cases, bankers will require fewer than 5 percent of their borrowers to obtain loan guarantees from the Farm Service Agency.

Wages and Prices. Labor markets remained very tight in most of the district in March and early April, with wage pressures continuing to mount. As in our previous survey, the construction sector faced the biggest wage pressures, but the manufacturing and retail sectors have quickly been catching up. Retailers' biggest labor needs remain entry-level workers and sales associates. Labor shortages among manufacturers are still primarily for skilled tradesmen such as machinists and welders, although entry-level production workers are also becoming harder to find. Builders continue to face shortages across the board, especially for masons and framers. Retail prices began to edge up in March but are expected to level off in the near future. Prices for most manufacturing materials fell slightly in March as more factories began taking advantage of cheaper imports, but prices for some materials, such as paper, are expected to rise in coming months. As for construction materials, sheetrock prices continued to rise due to availability problems, and prices for both sheetrock and insulation are expected to rise in the near future.

ELEVENTH DISTRICT--DALLAS

The Eleventh District economy continued to expand in late March and early April, and in most industries, contacts expressed increased confidence in the strength of their outlook for the rest of the year. Manufacturing activity was up slightly, with several industries reporting improving sales. Retailers said sales growth continued to exceed expectations in March and early April. Construction activity also continued to increase, and contacts said building was constrained by labor and materials shortages. Business service contacts and financial institutions reported little change in activity since the last beige book. Agricultural conditions remain difficult, with low commodity prices and concerns about dry soil. More farmers are expected to quit production this year.

Labor Markets. Labor markets remained tight in most industries. Some firms reported scattered wage increases, but other firms are choosing to offer bounties, hire recruiters or expand their searches rather than raise wages. One retailer said the company was able to raise base wages while lowering selling prices because recent sales growth had increased productivity per worker. They are anticipating further productivity increases because they expect to reduce costs associated with turnover, such as search and training expenses. Service sector contacts said wages continued to increase at the same pace reported in the last beige book, but fees were increasing more than wages.

Prices. Several manufacturers reported price increases for products, such as gasoline, food semiconductors, liner board, boxes and paper. Contacts report that paper inventories are low and prices are expected to increase further. Energy prices were up over the past 6 weeks. Oil prices rose sharply during March, as Saudi Arabia, Mexico, Iran, Venezuela and Kuwait agreed to cut production. Futures prices suggest that market participants expect this agreement will hold, but contacts expressed concern that if the OPEC agreement doesn't hold prices could fall as rapidly as they went up. The wholesale price of gasoline jumped from 34 to 54 cents per gallon during the month of March, pushed up by planned and unplanned refinery outages, as well as by increased demand from distributors refilling storage in anticipation of price increases. Natural gas prices moved up with oil, rising to nearly \$2 per thousand cubic feet on the spot market. Increases in fuel prices were starting to put upward pressure on fares, according to transportation firms.

Some manufacturers reported price declines. Heavy competition has turned the pager into a commodity, according to contacts, and price pressure is severe. There is still some downward price pressure on metals, particularly for alloys such as nickel and ferrous silicone, although producers say

low inventories may keep prices from dropping. Inventories were reported to be particularly low for primary metals because production was cut back when prices started to fall. Most petrochemical prices remained weak—under pressure from significant overcapacity. Ethylene and polyethylene prices rose by a nickel per pound or more because planned and unanticipated outages pulled inventories down to low levels for many plastics producers, but these prices are expected to fall again in a couple of months.

Manufacturing. Manufacturing activity increased slightly over the past 6 weeks, with several industries reporting improving sales. Paper producers said demand accelerated for corrugated boxes during the past 2 to 3 months, and liner board exports have recently picked up. Contacts believe worldwide inventories have fallen because many of the paper mills took maintenance downtime while supplies were high. Apparel manufacturers reported increased demand, but competition from less expensive imports remains intense. Demand for food products was up solidly, and contacts are optimistic about future sales growth. Domestic demand for most petrochemicals was extremely strong over the past six weeks, and gasoline sales surged. Brick and cement sales continued to be very strong, and contacts said the sales outlook was strong, particularly for cement, thanks to the Federal Highway bill. Contacts reported no change in demand for metals, with the exception of a producer who sells to the construction industry, where sales are very strong. Semiconductor sales weakened a little during the past month, although sales remain much stronger than a year ago. Contacts reported that world demand for semiconductors is starting to pick up, and capacity has been reduced, helping boost revenue and prices. Still, industry contacts remain cautious in the improving outlook, noting that Y2K and the proliferation of low-margin computers adds to future uncertainty.

Services. Business service contacts, such as consulting, accounting and legal, reported little change in activity over the past month. Demand was down for services associated with Y2K and the energy sector, but demand was up for services associated with the high tech, telecommunications, finance, utilities, global transactions and the Internet. Airlines said passenger traffic remained strong despite higher fares. Most shippers also reported good demand, with the exception of a contact who ships products which fill less than a full truckload.

Retail Sales. Retailers said sales growth continued to exceed expectations in March and early April, but some said growth was not as good as they reported in January and February. Contacts say consumers are very confident. As one said, “consumers are spending money they don’t have, and they aren’t concerned about it.” Most retailers remain very optimistic about the sales outlook, with

the exception of in Houston, where some retailers said sales growth has shown some softness.

Demand for automobiles remained strong, particularly for sport-utility vehicles, trucks and used cars.

Financial Services. Financial institutions reported a strong first quarter, and contacts say conditions have not changed appreciably during the past six weeks. Lending was up strongly for all loan categories, except commercial lending and to the energy sector. Commercial loans are becoming competitive, according to contacts, and net interest margins are under pressure for those banks with a portfolio primarily focused on commercial activity. However, credit unions and others who focus on retail activity reported strong gains and increased demand. Y2K is the main concern expressed from contacts, particularly small and rural institutions, who said that customers are beginning to call with questions.

Construction and Real Estate. Construction activity continued to increase. Contacts reported that shortages of labor and materials caused delays in new homes and apartments. Drywall shortages were particularly acute in Houston. New home sales were still "very strong" with some builders reporting record sales. New home prices were up 3.5 percent to 6 percent in the first quarter, according to builders, but they said these increases were absorbed by higher costs for labor, materials and interest payments. Delays in apartment construction have postponed an expected decline in occupancy rates in Dallas. Dallas office occupancy rates have declined as many new buildings are completed, but occupancy rates continued to increase in Houston.

Energy. Overall drilling activity did not increase with higher oil and natural gas prices. The domestic rig count slipped under 500 rigs for the first time ever and has stabilized near 500 over the past month. Oil-directed drilling picked up some, but natural gas drilling has continued to decline. Contacts expect drilling could pick up by this summer or fall, if higher energy prices hold. All contacts mentioned that producers had debt to pay down before drilling would rebound.

Agriculture. Low commodity prices and a heavy debt burden continue to threaten the viability of many of the region's farmers. A lack of winter precipitation damaged some of the Texas wheat crop, and production estimates are 30 percent lower than the 1998 crop. Conditions remain dry in many areas, and grazing of wheat pastures is less than expected. Still livestock conditions remained mostly good.

TWELFTH DISTRICT — SAN FRANCISCO

Summary

Reports from contacts indicate robust economic activity in the Twelfth District in recent weeks, despite continued restraint from weak trade conditions. Sales were strong for retailers and providers of services to businesses and consumers. Respondents noted vigorous activity and further expansion in housing and real estate markets in most areas of the District. Demand for bank credit was strong. Manufacturers and agricultural producers were hampered by international trade conditions; performance in these sectors changed little compared to recent survey periods, although a slight improvement was noted in agriculture. Price increases were limited overall, despite a sharp increase in the price of gasoline and rising prices for some services.

Business Sentiment

Respondents generally were optimistic about the expected performance of the national economy and their respective regional economies during the next four quarters. The percentage expecting growth in national GDP to exceed its long-run average pace rose from about one-third in the last survey to one-half, with most of the remainder expecting average growth. About two-thirds of the respondents expect the national unemployment rate to remain stable or fall during the next year, with nearly as many expecting inflation to rise. Over half of the respondents expect better growth performance in their regions than in the nation as a whole, with about two-thirds expecting stability or improvement in their region's business investment, housing starts, consumer spending, and outlook for foreign trade. The percentage expecting stability or

improvement in the outlook for foreign trade rose sharply, continuing a trend established in the last two surveys.

Retail Trade and Services

Retail sales were robust in most areas during the survey period. Auto and truck sales were strong in March; availability fell a bit, most noticeably for some makes of pickups, but was not reported to be a substantial constraint. General retail sales reports for California and Washington state were upbeat. In Idaho, Nevada, and Utah, sales of retail food and pharmaceutical products were strong in March but softened a bit in April. Despite strong demand for retail products, respondents noted excess retail capacity in some areas. Prices at the gas pump increased sharply; respondents in California reported the largest increases—up to 45¢ per gallon—and inventories there rose recently.

District service providers have been operating at capacity. In California, strong demand for business and transportation services kept those sectors bustling. Demand for telecommunications services was strong and grew further throughout the District. Several respondents reported a pickup in merchandise exports to East Asia, which has been reflected in reduced outflow of empty containers from West Coast ports. Although prices for most services reportedly remained stable, respondents noted increases in health insurance premiums and in the prices of hotel rooms and airline tickets.

Manufacturing

Manufacturing activity changed little in recent weeks. Production and sales were strongest for telecommunications equipment, wood products, and construction materials in general. Demand for computers and related electronic components was largely stable, with

unintended increases in inventories of desktop computers noted by one respondent. Boeing has been producing aircraft at or near capacity, although international demand has remained weak and backlogs for domestic aircraft have fallen. Weak export demand remains a constraining factor for many other durable manufactured items, and stiff import competition was reported for the garment industry and manufacturers of paper products. Reports on price changes revealed no consistent upward or downward movement.

Agriculture and Resource-related Industries

Respondents noted slight improvement over weak demand conditions reported in previous surveys. Sales of many District agricultural products were hampered by weak export demand, although some strengthening was reported in California and Arizona. The price of domestically produced rice reportedly rose to very high levels, due to an increase in international demand combined with low yield from California's rice crop. District cattle producers have curtailed supply in response to earlier weak market conditions, and this has combined with an improvement in demand for beef to raise cattle prices by 5 to 7 percent.

Real Estate and Construction

The markets for real estate and construction were highly active in most areas of the District, especially in California. Reports from all areas of California indicate vigorous housing construction and sales activity, although the rate of price appreciation reportedly has slowed a bit in some areas. Regarding California's commercial sector, vacancy rates in most areas were low or declining, with "almost no vacancies" reported for office space in San Francisco. Home sales have been very rapid in Arizona, with homes reportedly remaining on the market about 21 days on average. In Nevada, commercial development continued at a fast pace. Hawaii's residential

real estate sector maintained a strengthening trend established in late 1998, with increased sales and slower price declines reported. In contrast, some cooling was evident in the housing markets in Oregon, Utah, and Idaho outside of Boise.

Financial Institutions

Demand for bank loans reportedly was strong, and bank credit was readily available. One banker in the state of Washington reported a weakening of credit quality compared to conditions at the end of 1998, but another reported “no discernible problems” there. In Hawaii, although consumer and business loan demand remained weak, mortgage refinancing loans picked up.