

**For use at 2:00 p.m., E.D.T.
Wednesday
May 3, 2000**

Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

April 2000

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

APRIL 2000

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SUMMARY¹

Reports from the twelve Federal Reserve Districts indicated that the economy continued to expand during March and the first three weeks of April. The majority of Districts reported moderate to strong economic growth, with only Richmond and Chicago noting some signs that overall growth had slowed slightly. Consumer spending was strong and retail sales were in line with most merchants' expectations. Commercial construction activity generally remained robust, while several Districts noted softening demand on the residential side. Factories were running near capacity in some areas, as overall manufacturing activity was strong. Dry soil conditions were reported in many areas, but spring planting proceeded at a rapid pace. Oil drilling activity was up from a year ago.

There were more frequent reports of intensifying wage pressures as shortages of workers persisted in all Districts. Increasing input prices were noted in nearly every region. Many Districts cited wider use of fuel surcharges by shipping firms and other transportation companies. Manufacturers in several areas also reported higher prices for petroleum-related inputs, such as rubber and plastics, as well as for some non petroleum-related inputs. However, there were only a few reports that increases in input costs were resulting in higher prices at the retail level.

District reports generally indicated that recent volatility in equity markets had not had an impact on activity as of the time of this report, although it had altered some contacts' expectations.

¹Prepared at the Federal Reserve Bank of Chicago and based on information collected before April 24, 2000. This document summarizes comments received from businesses and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Consumer Spending. Retail sales generally were strong and in line with merchants' expectations. Contacts pointed out that year-over-year sales comparisons were affected by the fact Easter was later this year. Nearly all Districts reported strong sales of home-related items such as appliances, furniture, and lawn and garden equipment. The same was true for light vehicles (especially sport utility and luxury models), although pockets of softness were noted by Chicago and St. Louis. Nearly half the Districts reported that apparel sales were slow, especially men's, with unseasonable weather cited by many as a contributing factor. Inventories were in line with sales expectations for the most part. The tourism and travel industry was strong in the Richmond, Atlanta, and San Francisco Districts, while Minneapolis suggested that mild weather hurt their industry.

Prices at the retail level remained relatively stable in most areas, as competition and increased productivity reportedly helped keep prices in check. Philadelphia, Minneapolis, and Kansas City, however, noted more frequent reports of price increases in recent months.

Construction/Real Estate. Overall construction activity remained strong, although softening residential demand was reported in many Districts. Much of this easing took place in the interior of the country, with Cleveland, Chicago, St. Louis, and Kansas City noting that residential building had slowed. In contrast, the Richmond, Minneapolis, and Dallas Districts experienced strong growth in recent months, and New York reported that activity was "frenzied" in some areas. Philadelphia noted that the lack of land approved for development appeared to be limiting the pace of homebuilding. Existing home sales also appeared to have slowed somewhat, with a third of the regions noting that the stock of houses available for sale was quite low. Home prices continued to rise, especially in the coastal regions, but also in the Minneapolis and Kansas City Districts.

Reports suggested that commercial construction activity remained robust in most areas, as only Dallas reported an overall slowing in its District. Minneapolis and San Francisco noted strong growth while activity was mixed in the Cleveland and Atlanta Districts. Office rents were reported to be rising in the New York and San Francisco Districts.

Manufacturing. Manufacturing activity generally was strong, but reports were mixed by both geography and industry. Richmond was the only District to report a moderation in overall activity, while Boston, Cleveland, Kansas City, and Minneapolis noted solid gains. Activity was mixed in New York, Atlanta, Chicago, and Dallas, but generally remained strong. District reports indicated that light vehicles and related equipment, machine-cutting tools, steel, and high-tech hardware industries exhibited significant strength, while the agricultural equipment, heavy truck, and aerospace equipment industries were relatively soft. District reports on primary metals, fabricated metals, and textiles were mixed. Increasing foreign demand for manufactured goods was cited by Boston, Kansas City, Dallas, and San Francisco. District reports suggested that input prices were generally stable, with the oft-noted exception of increases in petroleum-related input prices. Philadelphia, however, indicated that input prices had increased for materials used in lumber, paper, chemical, and industrial equipment production. Output prices for steel continued to rise, as did prices for some construction-related materials. Wallboard prices, however, declined in the first quarter as new capacity came on stream, but prices remained solidly above year-ago levels. Cleveland and Chicago noted that factories were running near capacity while St. Louis suggested that the shortage of workers was a constraining force on their manufacturing activity.

Banking/Finance. District reports indicated that business loan demand remained strong in March and April while, on the consumer side, residential mortgage lending was relatively soft.

Demand for commercial and industrial loans was reported to be high in 11 Districts, while Dallas noted a slight softening. Interest rate increases were said to be delaying some commercial construction projects in Atlanta and Chicago. Contacts in virtually all Districts reported that business loan quality remained good, and some noted that banks were still tightening lending standards. Residential mortgage lending activity was generally flat to down in most areas as mortgage interest rates trended higher. New mortgage originations were down and refinancing activity remained very soft. Some Districts reported that high consumer confidence kept the demand for other types of loans (credit card, home equity, etc.) strong. Credit quality of consumer loans was also reported to be good, and improving slightly. Banks in most areas continued to report difficulty attracting sufficient deposits to fund loans.

Labor Markets. Difficulty in finding and retaining qualified employees remained a common refrain in District reports as worker shortages persisted in every District, and practically every industry and occupation. Many Districts noted that the lack of available workers continued to hamper overall economic growth; and reports of employers providing retention and referral bonuses, assistance in finding child care, and health benefits were more widespread. Many Districts reported particularly severe shortages of workers in retail trade. In the San Francisco District, a retailer was reported to have received only 2 applications for over 20 job openings at a new store, and Atlanta reported that some retail chains had given store managers the leeway to set local wages competitively. Employment costs remained under pressure and appeared to intensify in the last two months. New York, Cleveland, and Chicago cited significant increases in health care costs as a contributing factor.

Agriculture and Natural Resources. Farmers and ranchers in many areas were concerned about low soil moisture levels. Reports from nearly half the Districts indicated there

were areas of dryness that had adversely affected pasture conditions and may hinder the development of recently planted field crops and vegetables. Spring planting in most Districts was generally proceeding rapidly and running either on or ahead of the average pace. Chicago and St. Louis reported that spring planting intentions were quite similar to a year ago. Kansas City and Minneapolis reported that the winter wheat crop was in good condition, but Kansas City noted that additional rainfall was needed to ensure crop development.

The commodity price situation was mixed. Several Districts reported that farmers benefited from recent gains in hog and beef cattle prices. But low prices remained a concern for corn, soybean, and wheat producers despite some recent increases. In addition, San Francisco indicated that rising fuel prices had pushed costs higher and squeezed operating margins. Reports from Dallas, Kansas City, and Minneapolis indicated that oil-drilling activity was stronger than a year ago. Dallas indicated that the domestic rig count might be nearing an upper limit due to availability constraints on personnel and equipment. Minneapolis reported that the iron ore and palladium mining industries were at full production, but that low prices and environmental issues plagued gold mining.

FIRST DISTRICT – BOSTON

Business contacts in the First District remain upbeat. Retailers indicate their sales are in line with expectations and manufacturers report "solid" increases, with revenues or orders for some sectors or products very strong. Average pay increases remain in the 3 to 5 percent range, with larger increases for information technology workers and increased use of a variety of performance-based pay incentives for a wide range of professional and technical workers. Except for oil-related products, both manufacturers and retailers report little evidence of inflation. While a few manufacturers are raising prices, materials costs and vendor prices are mostly flat and large manufacturers continue to put pressure on their suppliers for price reductions. Recent stock market shifts and interest rate increases are said to be causing modest increases in uncertainty about the outlook.

Retail

Retail contacts report sales growth during the January through March period ranging from near-zero to double-digit increases from year-earlier. While these sales results are mostly in line with projections, sellers of apparel came in below expectations. Inventories are at desired levels. Respondents say that generally tight labor markets and acute labor shortages in selected occupations make it difficult to retain permanent staff and to hire replacements. Most retail contacts report that consumer price inflation is nonexistent and that vendor prices are either holding steady or, in the case of technology products, declining. Gross margins are said to be rising slightly because of productivity improvements.

Retail respondents indicate that they plan very little expansion of their operations over the next six months. On the basis of the economy's currently strong fundamentals, most contacts expect steady growth to continue through the year 2000. However, in the furniture and apparel sectors, uncertainty has crept into the outlook for the second half of calendar year 2000.

Manufacturing and Related Services

Almost all First District manufacturing contacts report that recent business is up solidly relative to a year earlier. Close to one-half of this month's respondents are experiencing double-digit revenue growth. Companies selling to the semiconductor industry are reporting extremely strong growth in sales and new orders. Manufacturers of computer hardware, automotive equipment, plastics, and medical devices also report vigorous growth. In contrast, makers of industrial equipment continue to indicate that orders are sluggish, although one reports that business from the automotive industry is poised to improve this year. Contacts in a number of industries indicate that foreign sales have accelerated.

Materials costs are largely flat even though many manufacturers are paying more for oil-based products, fuel, and freight. Apart from energy, respondents report few instances of higher quotes and generally they are pressuring their suppliers to hold the line or offer more attractive terms. Manufacturers selling building products, office supplies, plastics products, and selected consumer items have raised prices in the range of 2 to 5 percent. Selling prices are steady or down slightly in the case of information technology companies and those manufacturing equipment related to biotech and semiconductors. Firms making machinery and equipment for the aircraft and automotive industries report continuing pressures to reduce prices.

Except for a few firms that are expanding aggressively to meet rapidly rising demand, most respondents report that employment levels are flat or up slightly. Most employers report average annual pay increases in the range of 3 to 5 percent. However, the average increase is higher at IT firms, and respondents in a variety of industries are reacting to very tight labor markets for professional and technical employees by increasing signing bonuses, stock options, promotion rates, and performance

-based compensation. Other responses to tight labor markets include contracting out more engineering and software work (including overseas) and raising expenditures on equipment and information systems.

Various manufacturers mentioned that sharp reductions in stock prices or sharp increases in interest rates could adversely affect the economic climate. However, respondents remain upbeat about their revenue and earnings prospects absent large, unforeseen shocks.

Residential Real Estate

Residential real estate markets in New England are “stable,” but contacts in all states complain about lack of inventory. Several respondents stated that “there is nothing on the market,” and brokers are “desperate.” As a result, both single-family homes and condominiums tend to sell very quickly, and many properties receive multiple offers, some above asking prices. The lack of inventory has led to price increases in some areas. Prices in Vermont increased by 10 to 15 percent over the year ending in first quarter 2000. However, prices in Rhode Island and Connecticut increased only moderately, and Massachusetts contacts report modest rates of price increase in the first quarter compared to the previous year: 6 to 8 percent (annual rate) as compared to 10 to 15 percent earlier. Most contacts expect market conditions to remain stable in the next few months, although changes in the stock market or in interest rates could bring unexpected changes.

SECOND DISTRICT--NEW YORK

Growth in the Second District's economy has shown few signs of slowing since the last report. While wage pressures persist, inflation remains subdued, except in real estate. Retailers report that cool weather and increased competition contributed to disappointing growth in same-store sales in March and early April. While both selling prices and merchandise costs are said to be stable, transportation costs are expected to nudge up prices later this year, if fuel costs remain high. Housing markets remain subdued in upstate New York but are extremely tight in the New York City area, with stock-market turbulence reportedly having little effect as of mid-April; home prices continue to rise at a double-digit rate and construction workers are in short supply. Office markets have tightened further.

Regional purchasing managers' surveys indicate mixed but generally positive conditions in the region's manufacturing sector in March, along with some moderation in input price pressures. Finally, bankers report a pickup in consumer loan demand, further tightening in credit standards and improvement in delinquency rates.

Consumer Spending

After a strong January and February, retail sales were generally reported to be on or below plan in March and early April—even after accounting for the unusually late Easter. A number of contacts cite cool weather and increased competition as factors. A major discount chain opened eleven new stores in New Jersey in March, intensifying the competitive environment and possibly pulling some sales away from existing retailers. Most major chains project that same-store sales for March and April combined (which washes out Easter-timing effects) to be little changed from a year ago. Demand for home goods has remained fairly brisk, but sales of seasonal apparel have been sluggish.

Most contacts report that inventories are generally at satisfactory levels; however, a few say that if sales of seasonal apparel do not pick up soon, they will need to begin discounting heavily. Selling prices and merchandise costs remain flat. Rising transportation costs are having little impact thus far,

because most current contracts with suppliers were locked in last year; however, if fuel prices stay high, retailers expect suppliers to begin passing these costs along later in the year. Most retailers say that labor shortages are increasingly troublesome, but they are boosting wages only moderately. One contact, however, notes that health insurance costs, after declining for years, have turned up sharply in 2000.

Construction & Real Estate

The exceptionally tight housing market in and around New York City continues to spur construction and drive up prices, though activity and prices have retreated in upstate New York. Multi-family permits in New York and New Jersey remained at an extraordinarily high level in February, reflecting continued brisk activity in the New York City area. Year-to-date, multi-family permits in the two states are running 55 percent ahead of comparable 1999 levels. Single-family permits edged up in February but were still slightly below the strong levels seen in early 1999.

New York City realtors report continued excess demand. A leading Manhattan real estate appraisal firm reports that prices paid for co-ops and condos were up more than 20 percent in the first quarter, compared to a year earlier. Separately, a major Manhattan broker reports comparable price appreciation, and indicates that mid-April turbulence in financial markets has not spurred any discernible declines in traffic, sales, selling prices, or bidding wars thus far. One contact reports that some units have sold for over \$1,000 per square foot this year. Homebuilders in northern New Jersey also indicate continued frenzied demand, despite the mid-April stock market swoon; however, one New Jersey realtor reports a drop-off in sales over the April 15 weekend, despite strong traffic. On the supply side, builders report that shortages of insulation materials have been alleviated by a pickup in supply from manufacturers, but that labor markets remain "extraordinarily tight", forcing up labor costs.

New York City's office markets continued to tighten in early 2000, largely due to heavy leasing from the high-tech, finance and government sectors. Midtown's availability rate held steady at an

historically low level of close to 6 percent, while Downtown's rate fell to 7.6 percent—from 9.1 percent at the end of 1999 and nearly 12 percent a year ago. Manhattan office rents continued to rise at a double-digit rate in the past three months and are up 8% from a year ago.

Other Business Activity

Labor shortages appear to have intensified further. A leading employment agency reports that corporate clients are “so desperate for good people” that some are voluntarily offering higher fees, in addition to increased wages; they report a particular shortage of paralegal and legal support workers. Separately, Wall Street firms report that people are being recruited away by internet firms.

Regional purchasing managers indicate mixed but generally positive business conditions in March, along with some moderation in input price pressures. Buffalo purchasers report continued strong growth in new orders, a pickup in hiring and an acceleration in production activity; commodity price increases remain widespread but stable. Purchasers in the New York City area indicate that growth slowed in the manufacturing sector in March, but accelerated in non-manufacturing industries; price pressures were less intense than in February but were still fairly widespread among manufacturers.

Financial Developments

In the latest survey of small to medium sized banks, demand picked up for consumer loans and nonresidential mortgages but declined for residential mortgages. Refinancing at Second District banks continued to slow, as has been the trend in the past few surveys. On the supply side, bankers indicate further tightening in credit standards—almost a quarter of respondents reported tightening overall credit standards, while none said their bank had eased standards. Bankers continued to report higher interest rates across the board. Finally, delinquency rates decreased in all loan sectors compared with two months ago, with nearly a third of bankers noting improvement.

THIRD DISTRICT - PHILADELPHIA

Business activity in the Third District expanded moderately in March and April. Manufacturers posted increases in shipments and orders. Retail sales of general merchandise were slightly higher than during the same period last year. Auto sales were solidly above the year-ago pace. Bankers reported slight increases in loan volume outstanding compared to a year ago, with most of the gain attributable to commercial and industrial loans. Firms in a variety of industries continue to indicate that finding and retaining employees is difficult. While skilled workers are most in demand in service industries, some manufacturers and construction companies indicated they have been unable to fill their needs for both unskilled and skilled labor. Reports of rising prices have increased in both the industrial and consumer sectors.

Looking ahead, most business contacts in the Third District expect an easing in growth, although retailers predict an improvement in sales. Manufacturers forecast only steady rates of shipments and orders, on balance, during the next six months. Retailers expect an upturn in sales once the spring shopping period gets under way. Auto dealers foresee a nearly steady rate of sales. Bankers anticipate slower growth in business lending as a result of greater caution on the part of lenders as well as borrowers. Bankers expect mortgage lending to decline.

MANUFACTURING

Third District manufacturers reported moderate increases in shipments and new orders in April. While only a few producers of nondurable goods posted gains, most makers of durable goods saw increased demand for their products. Rising shipments and growth in orders were relatively more common among producers of lumber products, fabricated metal products, and industrial and commercial equipment. Overall, order backlogs and delivery times at industrial plants in the District have been steady. Firms in a wide range of manufacturing industries continue to report difficulty finding and retaining both skilled and unskilled labor.

Third District manufacturers have trimmed their forecasts recently. Earlier in the year they were predicting gains; currently, the balance of opinion is that orders and production will remain at about the current rate during the next two quarters. Despite their forecast of steady business conditions, area manufacturers expect prices of both the materials they purchase and the products they make to remain on an upward trend.

RETAIL

Reports from Third District retailers indicated that retail sales were up moderately in March and the first half of April compared to the same period a year ago. Discount stores, furniture and home furnishings stores, and jewelry stores posted relatively strong year-over-year increases. Clothing stores had modest gains. Results at department stores varied, but on balance, these stores had year-over-year gains of around 4 percent, in current dollars. Retailers believe the late Easter this year has shifted consumer purchasing to the end of April, and they expect better sales at the end of the month. Cold weather was also cited as a cause of lower than expected sales in early April, especially for spring apparel.

Auto dealers indicated that sales have been strong in recent weeks. Nearly all the dealers surveyed for this report said sales in March and early April exceeded sales in the same period a year ago by significant amounts. Extensive manufacturers' incentives were said to be supporting the high rate of sales. Dealers indicated that these incentives, in the form of rebates and low-rate financing, were offsetting any effect that might have been expected from recent increases in consumer loan rates at financial institutions. Dealers' earlier concern about slow sales of new large sport utility vehicles has receded as sales of those vehicles have risen recently. Dealers foresee some slowing in sales during the rest of the year. They expect sales for all of this year to decline a few percent from last year's level.

FINANCE

Loan volume outstanding at Third District banks has edged up in recent weeks, mainly because of growth in business lending. On balance, banks in the District were

boosting commercial and industrial lending. Bankers reported that business borrowers were implementing their expansion plans for the year, although a few bankers noted that some firms with plans to develop Internet ventures were delaying those initiatives and putting them under review.

Consumer lending was generally sluggish, with most banks reporting flat to slightly declining loan volume outstanding in March and April. The sluggishness in consumer lending extended to credit cards, home equity loans, and indirect lending. Bankers also reported that home mortgage refinancing activity has dropped as mortgage interest rates have risen. In contrast, purchase money mortgage lending has been rising, on balance, at banks in the region.

Commercial bank lending officers anticipate that growth in business lending might ease as both lenders and borrowers become more cautious about leverage ratios and debt service burdens. However, bankers do not see any indications at this time of a slowdown in business activity in the region. Financial institutions involved in mortgage lending expect demand for purchase mortgages to slow eventually in response to recent increases in interest rates. Some banks that lend to builders and developers indicated that shortages of construction labor and land approved for development appear to be limiting the pace of home building in the region.

PRICES

Manufacturers reported continuing increases in prices for raw materials and some manufactured inputs. The increases included but were not limited to energy resources and petroleum-based products. Sectors in which increases in input costs have been common are lumber products, paper products, chemicals, and industrial equipment. As costs in those sectors have risen, a growing number of firms have begun to charge more for the products they make. In contrast, manufacturers of apparel and processed foods indicated that their input costs have been steady and foreign competition has impeded their ability to raise prices for the goods they produce.

Retailers have also indicated that they are paying more for some goods at the wholesale level. They have generally avoided passing the full increase on to final selling

prices, but the combination of increases in the costs of some goods and rising labor costs are leading a small but growing number of stores to raise prices selectively.

FOURTH DISTRICT - CLEVELAND

General Business Conditions and Labor Markets

Growth in economic production in the District is moderately strong, with continued low rates of joblessness and steady growth in wages. The prices for consumer goods and construction materials are stable. However, the prices of steel and health care are increasing.

Strong demand for temporary workers continues unabated and contacts reported a significant increase in unfilled customer orders over the past two months. Contacts reported that while demand for temporary workers has not increased substantially, it is becoming increasingly difficult to find and retain qualified workers. Contacts noted only small increases in wages. Demand continues to be especially strong for administrative assistants, legal secretaries, and workers with technical and computer skills. Clerical, payroll, manufacturing, and production workers are also in high demand. Contacts also noted a growing trend for firms to retain qualified temporary workers on a permanent basis, with some firms increasingly using temporary employment agencies to find full-time employees. Strong demand for temporary workers is expected to continue into the near future.

Unions reported that wage growth remains fairly constant at an annual rate of about 3 percent for most industries and slightly higher in those requiring higher-than-average skill levels. Driven by surging pharmaceutical costs, health-care premiums have reportedly increased between 6-10 percent since last year.

Construction

Some District homebuilders reported a significant slowing in housing sales. They attributed this to recent declines in equity prices for buyers at the high end of the market and higher interest rates for those at the low end. While sales have not fallen dramatically, most contacts regard the slowdown as coming at an inopportune time; March, April, and May are usually peak selling months.

Residential builders reported no significant changes in labor and materials costs, although drywall prices are expected to fall in the near term as two new production facilities in the District add to the supply.

Commercial building activity remains mixed across the District. Contractors involved in publicly funded construction continued to report substantial growth. Office construction continues to be at a high level, particularly in the downtown sections of the District's larger cities, but not at the brisk pace of public-sector projects. Retail space construction is at the same level as last quarter. Warehouse and industrial construction has declined, but contractors expect stronger conditions by the summer.

Industrial Activity

The demand for steel products is strong, especially by the automobile-manufacturing and construction sectors. All contacts reported strong sales in the first quarter and strong orders booked for the second quarter. Most companies are operating at full capacity to meet the demand. Most contacts reported price increases of \$20-\$25 a ton (equivalent to a 5-6 percent rise) for hot- and flat-rolled steel products. For some companies, this is the second increase this year. Other companies plan to increase prices again in the second or third quarter. One steel company announced a 10 percent increase in finished goods inventory, but other contacts reported no change in inventory.

Purchasing managers in the District reported higher commodity prices in March, especially in primary metals, petroleum products, and paper products. Production levels increased slightly, while new orders remained at roughly the same levels as last month. High gasoline prices are expected to cause a steep decline in sales of heavy trucks, but current production and sales are still good.

Consumer Spending

Most District retailers reported modest sales growth in March and April. In general, specialty retailers fared better than their department-store counterparts, although higher-end department stores continued to perform particularly well. General merchandisers reported steady sales growth across all product lines, although overall growth in apparel sales did not match the high rates of the first quarter. Home furnishings and furniture sales were particularly strong, with year-over-year increases on the order of

10-12 percent. Retailers noted no significant cost pressures from suppliers, though some in the grocery segment reported that some shipping companies have assessed surcharges for increased fuel costs. At the retail level, most have noted an inability to increase prices due to competition.

After record sales in 1999, District auto dealers reported that brisk sales of new vehicles continued into the first quarter. Most dealers reported between 5 percent and 15 percent year-over-year sales growth. District dealers were optimistic that strong sales would continue over the second quarter, and they expect a very robust summer. March sales are said to be particularly strong, while April sales are mixed relative to March. The current inventory position of District dealers is ample, and no shortages were reported. Despite the continued strength of new car sales, sales of used vehicles have also surged in 2000.

Agriculture

Corn planting is reportedly 28 percent complete in Kentucky. (This compares to 17 percent planted by April 21 last year and 19 percent planted by April 21 on average over the past five years.) In Ohio, corn planting is scheduled for the last week of April; however, rain may delay planting by one week. Some expansion is reported in Ohio livestock herds. Crop prices are low compared to a year ago, but prices for hogs, pigs, and beef have increased from low levels in the past months. In agricultural labor markets, wages have been increasing in line with other industries and with inflation. Most farmers are working hard to attract seasonal workers. Tobacco planting has declined due to the recently announced Federal tobacco quota cuts of 45 percent, the largest drop in the tobacco quota in a decade.

Banking and Finance

Commercial lending activity in the District is described as strong. On the other hand, the demand for consumer loans is down. Some contacts reported that this may be due to competition from credit unions and manufacturing finance corporations. Although many sources described their credit quality as "high," some banks reported a very high loan-to-deposits ratio, which is causing them to lend less. Most bankers reported that they are expecting to attract more deposits in light of the recent volatility

in the stock market. At this time, however, they have not observed unusual increases in deposits. The reported spread between borrowing and lending rates is small.

FIFTH DISTRICT – RICHMOND

Overview: The Fifth District economy remained vibrant, but expanded at a slightly slower pace in March and April as growth in services and manufacturing activity eased somewhat. Manufacturing activity remained relatively strong and shipments expanded at a solid clip, although the growth of new orders fell sharply. At District retail establishments, sales gains were robust, but revenue growth at resorts and utilities was sluggish, in part because of higher gasoline prices. Residential real estate activity expanded at a strong pace since our last report while commercial real estate activity held steady. Bank lending generally advanced modestly in recent weeks, despite slack growth in mortgage lending. In District labor markets, employment and wages increased sharply at retail establishments, but grew only moderately in manufacturing. On the prices front, District manufacturers noted higher prices for oil and steel, but business contacts in general continued to report only modest price increases for goods sold.

Retail: District retailers reported stronger growth in customer traffic and sales in the weeks since our last report. Improved weather in recent weeks was cited by a Columbia, S.C., retailer as a primary reason for stronger than normal growth in sales of building and garden supplies. Retailers' inventories increased over the period, and retail prices grew more slowly. In labor markets, retail employment bounced back from softness earlier in the year, and wage pressures maintained upward momentum.

Services: Service sector revenues grew at a slower rate since our last report. Higher prices for gasoline and air travel contributed to a decline in hotel bookings, according to a hotelier in the District of Columbia. In addition, revenues at electric and gas utilities also fell as the weather warmed. Employment in the services sector rose at a moderate pace, while average wages grew faster than in the previous two months.

Manufacturing: The pace of District manufacturing activity moderated in recent weeks. Manufacturers' shipments continued to expand at a solid rate in March, but new orders growth slowed considerably—particularly in the food, primary metal, and fabricated metals industries. Manufacturing employment was little changed since our last report, while average workweek declined. Wages advanced at a modest pace.

Reports of higher raw materials prices were more widespread in recent weeks. Several tire and rubber manufacturers noted that higher oil prices had driven their costs higher. The director of sales operations at a food processing plant in Virginia said that

higher gasoline prices were having a "significant impact" on his distribution costs. In addition, an industrial machinery and equipment manufacturer in Raleigh, N.C., reported steel prices had risen "terribly," contributing to a 25 to 40 percent increase in his costs of raw materials over the last twelve months.

Finance: District bankers reported only a modest increase in lending activity since our last report. Commercial lending was moderately higher, bolstered by a generally strong District economy and, in some cases, demand for loans to pay tax bills. A commercial lender in Richmond, Va., reported lending to be "steady as she goes," noting that businesses had "adjusted well" to a higher interest rate environment. Consumer and mortgage lending activity, however, was mixed. A Charlotte, N.C., lender reported that continued robust economic growth had contributed to buoyant consumer loan demand, but a Greenville, S.C., banker noted that sharply higher gasoline prices and high debt levels had damaged consumer confidence. The Greenville, S.C., lender also noted relatively weak demand for home mortgages in his area.

Real Estate: Residential real estate activity advanced at a solid pace in March and April, although, in a few areas, sales lacked the sizzle normally seen at this time of year. Both builders and realtors reported that Northern Virginia continued to be a hotspot, with customer traffic there described as "higher than ever." Real estate activity was also strong in Myrtle Beach, S.C., where contacts said that customer interest in upper-end homes had picked up, and in the eastern panhandle of West Virginia, where builders indicated that speculative building rose in response to strong demand for homes in the lower price ranges. Home sales in Baltimore, Md., however, were reported to be lower, and realtors said that Virginia residential markets were "softer" in Richmond and in the Tidewater area. In contrast, realtors in the District of Columbia and in the surrounding Maryland suburbs reported markedly higher prices for upper-end homes.

Commercial real estate activity changed little since our last report. In Baltimore, Md., Class A office space availability tightened "a bit," while vacancy rates continued to fall. Commercial realtors in Charlotte, N.C., reported little change in leasing volumes and rents, but said that substantial amounts of new office space were being added downtown and that industrial leasing activity had started to pick up. Industrial leasing activity was also active in the Research Triangle area of North Carolina. Class A office space tightened slightly in Raleigh, N.C., and retail rental rates rose. Rental rates for office

space were said to be higher in Columbia, S.C., in part because of a "flood" of telecommunications businesses moving into that locality. Commercial markets in Northern Virginia remained strong; a realtor there told us that premiums were being paid by office building tenants in order to secure lease renewals.

Tourism: Tourist activity strengthened in March and April. Contacts at District resorts reported that bookings for the Easter holiday were much stronger than a year ago. One hotelier on the Outer Banks of North Carolina told us that the beaches were packed, in part because Easter occurred later this year. In addition, contacts attributed increased activity at resorts to the increased popularity of "spring break" vacations that take advantage of the lower, off-season room rates. In Washington, D.C., unseasonably warm weather attracted record crowds of over 700,000 visitors to the National Cherry Blossom Festival in late March and early April.

Temporary Employment: Demand for temporary workers strengthened further in recent weeks. Contacts at temporary employment agencies said that clerical and computer-skilled workers remain at the top of the wish list for most employers. However, in urban markets, contacts said that conditions were so tight and the pool of available temporary workers so thin, that their clients would settle for workers that simply showed up at the job. In the Carolinas, light industry picked up recently, which led to increasing strains on already tight labor markets. In contrast, a contact in a rural area of West Virginia said that there were abundant workers in that area and that they were increasingly computer-savvy. He attributed labor-market slackness to sluggish local economic conditions. In general, wages for temporary workers continued to rise at a moderate rate.

Agriculture: Abundant rain in recent weeks left District farmland in generally good condition for spring tillage and planting. The recent rains delayed activity in some areas, but planting progress of field and vegetable crops was ahead of schedule in most areas. The rainfall also benefited pastures, particularly in Virginia and West Virginia, where livestock producers moved livestock onto pastures earlier than normal. Cold weather in mid-April caused scattered damage to fruit trees in West Virginia but fruit prospects remained generally good; apple trees were in bloom 10-14 days earlier than normal. Although crops were developing well, District agricultural producers remained concerned with low farm commodity prices.

SIXTH DISTRICT – ATLANTA

Summary: Southeastern economic activity expanded moderately in early spring, and contacts are mostly optimistic about future prospects. Merchants' sales have met or exceeded expectations, and retailers anticipate that second-quarter sales will better year-ago numbers. Residential sales and construction have slowed in most markets, but commercial construction has picked up. Although overall factory output has been soft recently, new contracts are aiding some producers. Loan demand remains strong throughout the District except for housing, and the outlook for the tourism sector remains positive. Labor costs are still under pressure because of continued labor scarcity throughout the District. Contacts report increasing prices for a number of commodities and services.

Consumer Spending: According to District retailers, a late Easter this year diminished March sales and shifted purchases into April. Most retailers opined that in early April sales were up slightly compared with a year ago, and recent sales have met or exceeded expectations. Inventories are balanced. Children's apparel, cosmetics and shoes are selling well, while men's apparel sales have been weak. Most merchants anticipate that second-quarter sales will exceed year-ago levels.

Construction: Reports from builders around the District indicate that single-family construction activity in March and early April varied considerably from market to market compared with a year ago. Overall, new home sales weakened slightly from March to early April on a year-over-year basis. Reports from Realtors also noted that home sales in March compared with last year varied, but home sales in early April were weaker than sales a year ago. Realtors and builders agree that activity is slowing in their markets. Looking ahead, the majority of contacts anticipate home sales and construction levels during the second and third quarter to fall below last year's levels.

Overall nonresidential construction picked up recently; however, activity has not been uniform across the District. Construction reportedly rebounded strongly in Georgia, Mississippi and Tennessee, while activity in Florida also improved from the first of the year but remained below year-ago levels. Construction growth continued to accelerate in Alabama, while commercial construction slowed somewhat in Louisiana.

Manufacturing: Reports from the industrial sector were mixed. Some factory contacts note delays of capital purchases because of increases in interest rates. Other industry spokesmen report a slowdown in "speculative" technology investment. A tool manufacturer and a sewing plant in Tennessee, and an electronics producer in Georgia, are shifting jobs to Mexico in order to remain cost competitive. Higher energy prices are also affecting the factory sector. A company manufacturing truck tractors notes declining orders, forcing cuts in production and layoffs. Conversely, in another part of the District, companies manufacturing equipment used in drilling rigs are expanding and reporting new contracts. A District shipyard is undertaking its largest expansion ever on the strength of new contracts. The region's pulp and paper industry is experiencing improving activities, based partly on the strength of exports, according to one contact. A health care product producer reports slowing activity as customers work down inventories built as a hedge against possible Y2K problems.

Tourism and Business Travel The tourism and hospitality sector continues to post strong numbers and the outlook is for more of the same. Travel to south Florida is robust with brisk airline, hotel and car rental business. Bookings at hotels and resorts continue to equal or better last year's record pace, and summer bookings have managers optimistic. Along the Mississippi Gulf Coast, recent revenues reported by casinos were the second highest since gaming began there. Officials are concerned that Opry Mills, a new entertainment and shopping center opening in Nashville, will have

difficulty finding 3,500 employees needed to staff the center because of the area's low unemployment rate.

Financial: Bankers throughout the Southeast indicate that overall loan demand remains strong, and there is little evidence of a slowdown in planned business investment. Some financial institutions have stopped absorbing interest rate increases and are passing them on to corporate borrowers. This is beginning to hurt some commercial projects. There are reports that recent financial market volatility has resulted in delays of planned public offerings by some District companies. A few lenders have implemented slight increases in consumer loan rates, but current consumer and automobile loan demand remain unaffected. Residential lending and refinancing demand remain weak throughout the Sixth District, and overall credit quality is said to be healthy.

Wages and Prices: Tight labor markets continue to impact the District, although the more frequent reports of increasing wages remain scattered. Employers continue to rely on overtime to fill employment gaps. Local retail managers in some chains reportedly have been given authority to set wages to compete locally. Other firms are offering substantial signing bonuses to attract scarce labor. Contacts are concerned about finding staff for business expansions and are offering incentives, such as subsidized day care and flexible work hours, to retain current employees.

More contacts than before report increasing prices. Stainless steel, copper, plastics, and lumber prices are increasing. Newsprint and asphalt prices have also risen recently. Many companies polled, from furniture movers and garbage haulers to air-freight firms, say that they are adding fuel surcharges to prices because of higher fuel costs.

SEVENTH DISTRICT—CHICAGO

Summary. The Seventh District economy continued to expand in March and April, with some reports suggesting that growth may have slowed slightly. Consumer spending remained strong, although some pockets of softness were reported. Demand for new and existing homes eased modestly, although most contacts still described the housing market as healthy. Production remained near capacity in some manufacturing sectors, but softness endured in other key industry segments. Loan demand remained solid, and lenders reported that asset quality on both business and consumer loans was good overall. Employers in the District again struggled to find and retain workers, and there were a few new reports of intensifying pressure on employment costs. Dry soil conditions persisted in many areas, but spring planting proceeded at a rapid pace.

Consumer spending. Consumer spending in March and April was largely in line with retailers' optimistic expectations, as consumers remained very confident about the economy. The strength was not universal, however, as a few merchants noted soft sales, high inventories, and increased promotional activities. Discount stores appeared to fare better than general department stores. Sales of apparel, seasonal items, home and garden goods, electronics, and consumables were reported to be strong. Most national chains noted that sales growth remained strong in the Midwest, although not as strong as on the coasts. Many contacts noted that unfavorable weather hampered sales of traditional spring items, but they expected to recoup any lost sales as the weather improved. A contact in the casual dining business reported that growth remained strong nationwide. Reports on light vehicle sales in the District were mixed. Some contacts noted continued strong demand, especially for luxury models, while others indicated that sales were down substantially. One large dealer group, noting a drop off in showroom traffic and service orders, said that the "mood" of their customers had changed in recent months.

Housing/construction. Residential construction remained relatively strong, according to builders, but two national reports showed softening in the Midwest from a year ago. A national survey of homebuilders showed a notable drop-off in its Midwest housing activity index in April, and a government report indicated that the region's housing starts were down sharply in March. Most of the weakness in the housing starts, however, was concentrated in multifamily units.

Contacts were quick to point out that the multifamily segment was much more volatile than single-family starts. Still, neither participants in the national survey nor our contacts in the District suggested that the new home market was weak. Sales of existing homes slowed somewhat in the first quarter of 2000 from a year ago in some areas. However, realtors noted that average days on the market were down slightly and the ratio of selling-to-asking price remained very high, indicating continued strength in the market. Commercial construction remained fairly strong, although contacts suggested that interest rate increases are of greater concern on the business side than on the residential side. A report from one of our largest metro areas suggested that hotel development plans were being delayed by financing concerns. Lenders nationwide have grown cautious of the amount of new space that has already been developed in recent years and have tightened standards and terms, according to this report.

Manufacturing. Overall manufacturing activity was again strong in March and April, but results were mixed by industry segment. There was no ambiguity in the auto sector, however, as the industry remained “red hot” according to contacts. Nationwide, sales of light vehicles were higher in the first quarter of 2000 than any other quarter on record. Demand for office furniture was up significantly from last year and backlogs were at record levels, according to one manufacturer. Production was nearing capacity in the steel industry as last year’s huge inventory overhang has been worked down. Demand for machine-cutting tools, buoyed by increasing global demand, was reported to be strong and improving. Producers of construction materials (wallboard and cement) were running nearly “full out” as excess demand was being satisfied by increasing imports. Wallboard prices were reported to be down about 6 percent from December, but remained nearly 11 percent above year-ago levels. The demand for heavy equipment was mixed, as the soft agricultural equipment sector improved somewhat while new orders for heavy trucks fell off “sharply” from a year ago. Input costs remained relatively flat for most manufacturers, as did output prices, as many companies continued to fight for market share in their respective industries.

Banking/finance. Bankers reported that loan demand remained strong and overall growth was more or less steady. For many smaller community lenders, loan demand was not the problem, but funding those loans was. Some agricultural and community lenders continued to fund loans through borrowing, still unable to attract sufficient deposits. Several bankers noted a surge in home equity lines of credit, partly offsetting slow refinancing activity. A contact at a

large money center bank noted that consumers' credit usage was increasing, but that they were paying down their balances faster and overall consumer credit quality was improving. Demand for commercial and industrial loans remained robust, while a few contacts reported that commercial mortgage lending activity had slowed somewhat from last year. One banker noted that banks were still lending to existing customers that wanted to expand, but were turning away new customers seeking funding for speculative commercial building projects. Commercial credit quality was generally described as good and steady, but one banker added that even banks that had relaxed lending standards "(weren't) being punished because the economy is so good."

Labor markets. Employers in the Midwest continued to struggle to find and retain workers as the region's labor markets remained much tighter than the nation as a whole. Shortages of workers persisted in practically all areas, industries, and occupations. Seventy percent of respondents to a March survey of Michigan retailers reported that overall customer service was suffering as a result of worker shortages. Contacts at smaller and community banks noted that wage competition from national banks with a presence in their areas made it increasingly difficult to retain workers, especially part-time tellers. One contact noted that health care companies were using signing bonuses more frequently to "raid" their competitors. Another contact noted that benefit cost increases were significant, particularly for prescription coverage, and a nationwide staffing service in one of the District's largest metro areas reported that wages had increased roughly 15 percent from the beginning of the year. Most contacts, however, suggested that broad-based employment cost increases remained modest and steady.

Agriculture. Beef cattle and hog prices were a bright spot for District farmers in recent weeks. During the first half of April, hog prices were 70 percent higher than a year earlier while beef cattle prices were up 10 percent. A report released by the USDA at the end of March indicated that hog numbers were down from year-ago levels in each District state except Iowa, which registered a small increase. Though recent rains improved soil moisture conditions, some areas in the District remained quite dry. However, the dry conditions enabled corn planting to proceed at a pace considerably quicker than normal through April 24. A recent USDA survey indicated that the number of acres planted to corn or soybeans in the District will be about the same as last year, and that farmers will modestly reduce the acreage planted with genetically modified seed.

EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy continues to grow at a moderate pace. Contacts report growth in employment and sales, although many firms still face tight labor markets. High fuel prices have bitten into several industries' profits. Sales of existing homes have continued to slow in some regions in the District, while in other regions housing demand continues to be strong. Loan demand has increased modestly, but banks continue to struggle to attract deposits. A mild increase in some crop prices has been noticed lately.

Manufacturing and Other Business Activity

Contacts report sound overall business conditions in the District, with output remaining high and demand growing. The high-tech industry, for example, continues to flourish, creating numerous skilled jobs in the District. A provider of cable-based Internet services is opening in Louisville, and a firm that services Internet retailers is opening in Memphis; together they will create about 1,450 jobs. Southwestern Bell Wireless will create 500 jobs by year-end at a new call center in Little Rock.

A few contacts, however, have noted a slowdown in demand for their products over the past few months. For example, the demand for durable goods, such as automobiles and home furnishings, has tapered off slightly. The textile industry continues to weaken, with several more clothing manufacturers moving their jobs abroad. A printing plant in western Tennessee closed, eliminating 425 jobs.

Markets for skilled and unskilled labor remain tight; consequently, reports that firms are unable to expand production are becoming more frequent. A District steel mill, looking to increase production, reports that it cannot find the 100 workers it needs. Problems with worker retention and absenteeism have forced an automotive parts producer to shut down all non-critical production lines. The health care and hospitality industries are being hit particularly hard by the labor shortage. Nurses and pharmacists are very scarce, leading many hospitals to raise wages to attract such workers. Casinos, restaurants and hotels

report staffing problems as well, with worker vacancy rates reaching 25 to 35 percent in some cases.

To address this problem, firms are using creative techniques, which include recruiting over the Internet and outside of their local areas, to find workers. Also, to attract workers, the hospitality industry has begun offering benefits, such as pension plans and health insurance, and wages that are \$2 to \$3 above the minimum wage. To retain workers, some employers are paying bonuses to workers who stay on the job more than 90 days. All told, however, overall wage pressures remain moderate.

High fuel prices continue to bite into the trucking and transportation industries' profits. In response, many of these firms, including UPS and FedEx, are tacking on delivery surcharges—in some cases, of 6 percent or more. In addition, trucking companies are adopting efforts to improve efficiency and reduce fuel consumption by cutting idling times and organizing driving routes better. Fuel prices are also harming many District businesses indirectly. For example, car dealers report that SUV sales are down moderately because of high gas prices.

Real Estate and Construction

Sales of existing homes slowed somewhat in March in several areas of the District, especially in West Tennessee and Memphis. Real estate agents cite higher interest rates as a reason. On the other hand, some areas, such as parts of Arkansas and northeast Mississippi, continue to experience strong housing demand, with several agents in the region reporting a shortage of available houses, particularly mid-priced (about \$200,000) ones. Sales of new homes have continued to weaken somewhat District-wide.

Residential construction picked up significantly in February, partly because of the unseasonable weather. Year-to-date permits in February were above their year-earlier levels. Commercial construction has maintained its moderate growth trend, especially in southern parts of the District, where agents note healthy demand.

Banking and Finance

Although District banks continue to struggle to raise deposits, outstanding loans on the books continue to show a moderate increase. Between January and March, total deposits at a sample of large District banks remained flat, while total loans outstanding increased by slightly more than 1 percent. Almost all of the loan growth came from the commercial and industrial category, which grew by 2.4 percent. Real estate and consumer loans were basically unchanged. Nevertheless, all of these loan categories were up substantially from a year earlier. For example, despite higher interest rates, commercial and industrial loans were up by more than 15 percent, while real estate loans grew by more than 6 percent. Over the same period, total deposits grew by less than 1 percent. Confidence in the economy is often cited as a reason for the continued loan growth.

Agriculture and Natural Resources

Although still relatively low, prices for corn, soybeans and cotton seem to have turned around somewhat during recent months, ending an almost three year decline. Wheat prices also remain low and have shown no sign of recovery. Hog prices, on the other hand, rebounded significantly from year-ago levels due to a slight decrease in production and growing demand.

With favorable spring weather, many farmers are slightly ahead of schedule with field preparation and planting. Soil-moisture levels, however, remain low in Illinois, Missouri and southern Indiana; they are reportedly adequate in Kentucky and the southern portion of the District. The District winter wheat crop is in good-to-excellent condition in many areas. In the northern part of the District, planting intentions for corn and soybeans are estimated to be about the same as last year. In the southern portion of the District, farmers intend to increase acreage for corn and cotton, and decrease it for soybeans and rice.

NINTH DISTRICT--MINNEAPOLIS

Economic activity in the Ninth District continues at a robust pace. Construction, manufacturing, energy, and iron and palladium mining industries keep on invigorating the economy. Consumer spending is still strong and agriculture continues to climb out of its deep slump. Due to light snowfall, winter tourism finished down, but the outlook for summer tourism is bright. Labor markets are still tight as businesses report wage pressures. Consumer inflation remains stable, although some price increases were noted, primarily in petroleum-related products.

Construction and Real Estate

Commercial construction activity is hardy. Contracts awarded for construction projects increased 17 percent in Minnesota and the Dakotas for the three-month period ending in February compared with a year earlier. In addition, loan demand for commercial real estate is strong in Montana, reports a bank director.

Residential construction also is sturdy as building permits and home values continue to rise. During the first quarter of 2000, 18 percent more district housing permits were authorized than a year earlier. Despite higher interest rates, building activity remains brisk in the Upper Peninsula of Michigan, according to a homebuilder association board member. In addition, recent valuations on property in the Rochester, Minn., area are expected to show a 10 percent to 15 percent increase from a year ago.

Consumer Spending and Tourism

Spending at retail stores continues at a vigorous pace. Recent sales at two Minneapolis area malls were up 7 percent to 10 percent over a year ago. A major electronics retailer reports that Minnesota and North Dakota year-to-date March same-store sales were up 8 percent compared with a year ago, and South Dakota year-to-date March same-store sales were up 12 percent. New car and truck sales in North Dakota for March were 5 percent above a year earlier. An auto dealer association representative in South Dakota reports strong sales overall during first quarter compared with last year, but softer sales at dealerships in rural areas.

Meanwhile, winter tourism finished down due to abnormally light snowfall. The winter season was off 10 percent to 15 percent compared with last year in the Upper Peninsula of Michigan. Hotel occupancy in northern Wisconsin was below last year's levels for February and March, according to a chamber of commerce representative. On a positive note, inquiries about summer activities were at or above year-earlier levels at tourism offices.

Manufacturing

Manufacturing in the Ninth District remains robust. A March purchasing manager survey by Creighton University indicates a strong manufacturing sector in Minnesota, North Dakota and South Dakota. For example, sales doubled compared with a year ago at a Minnesota microelectronics equipment manufacturer, and sales increased 16 percent over last year at an industrial machinery and equipment company. In addition, a Wisconsin concrete producer noted increased sales and a plastic products company reported a plant expansion in western Wisconsin. However, a computer component company shut down its photo etching operations in Wisconsin due to soft demand for disk drives.

Mining and Energy

The iron ore and palladium industries are at full production, while Montana gold mining continues to struggle. An iron ore industry spokesperson reports full production and strong demand. February year-to-date iron ore shipments were 78 percent above year-ago levels, while January inventory levels were down 15 percent. A Montana mining industry spokesman reports palladium production "continues at full speed ahead," while gold mining is still plagued by low prices and environmental issues.

Meanwhile, Ninth District oil exploration and production continue at a strong pace. In April, 13 rigs were operating in North Dakota compared with one a year ago and estimated April oil production in North Dakota was up 1 percent from a year ago at 92,000 barrels per day. In addition, Montana rig operation increased to six compared with four a year ago, and Montana oil production is up 6 percent from a year ago at 47,000 barrels per day.

Agriculture

A mild winter has benefited district cattle producers. Ranchers report healthy livestock and generally good calving conditions across nearly the entire district. The U.S.

Department of Agriculture reports that calving is almost complete, and most calves and cows are in good to excellent condition.

Meanwhile, most district farmers need rain. The U.S. Department of Agriculture reports that topsoil moisture conditions are rated as short or very short for 59 percent of Montana, 42 percent of Minnesota, 26 percent of South Dakota and 26 percent of North Dakota. However, the Montana Agricultural Statistics Service reports that 51 percent of the Montana winter wheat crop is in good to excellent condition.

Employment, Wages and Prices

Finding workers is difficult. Due to a lack of available workers locally, a major Minneapolis/St. Paul-based discount retailer is expanding its credit operations center in another state after initially planning to stay in Minnesota. A small seed producer in North Dakota is operating 10 hours a day, but would stay open 24 hours if the labor became available. Potential relief was noted by a manager at a company in St. Cloud, Minn., who is optimistic that the labor pool may expand due to a repeal of restrictions on the amount older workers can earn before reducing Social Security benefits.

Even though labor markets remain tight, some layoffs were reported. A computer disk drive manufacturer will cut 950 jobs due to soft demand, a printing plant closing in St. Paul will cost 550 jobs, and a major Minneapolis-based food company will release 270 workers due to restructuring.

Businesses continue to increase wages to attract workers. District manufacturing wages are up 3 percent compared with a year earlier. An economic development official in Sioux Falls, S.D., noted wage pressure for unskilled positions, including signing bonuses at fast food restaurants. Nurses at a Missoula, Mont., hospital will receive an 8 percent raise next year.

Inflation is generally stable, with some notable exceptions, especially increases in petroleum and health care. Bank directors report additional fuel surcharges for transportation and heating services. Trucking rates are up 9 percent from a year ago, according to a Minnesota Trucking Association spokesperson. Health care costs in Minnesota increased 10 percent to 12 percent from year-earlier levels, reports a bank director. In addition, the *St. Cloud Area Business Outlook Survey* shows that 34 percent of area firms expect to increase prices over the next six months, the highest level since the survey began in December 1998.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy held steady in March and early April, although there was some increased evidence of price pressures. Retail sales were largely unchanged, manufacturing activity remained strong, and construction activity continued at a solid pace. Activity in the energy sector was also stable after improving during much of the past year. In the farm economy, the winter wheat crop was generally in good condition. Labor markets remained very tight, with wage pressures slightly higher than in the recent past. Price increases for manufacturing materials were more pervasive than in previous months. Retail prices also continued to edge up, as did prices for certain construction materials.

Retail Sales. Retail sales were flat in March and early April, and largely unchanged from a year ago. Several managers attributed the lack of growth to a late Easter season, and expectations for summer retail activity remained favorable. E-commerce activity continued to build sales for some retailers in the district. On the negative side, some high-end stores reported that sales have been hurt by recent stock market volatility. Purchases of home furnishings remained strong, while men's clothing continued to move slowly. Store inventories crept up due to the flat sales but most managers remained satisfied with current stock levels. Motor vehicle sales improved as expected, as the truck and SUV market segment rebounded from a slowdown in the winter months. Dealers continued to express optimism regarding future prospects, and virtually no vehicle inventory problems were reported.

Manufacturing. District factory activity remained strong, due in part to the continued improvement of export markets. Most plants reported high levels of capacity utilization. Manufacturing materials remained generally available, although some managers reported difficulties

obtaining steel products. Lead times were unchanged. There were increased reports of dissatisfaction with inventory levels, however, and many plants intend to trim stock in coming months.

Housing. Housing starts were flat in March but still relatively high by historical standards. Builders were cautiously optimistic heading into the summer, despite rising interest rates and the application of growth controls in some areas. Material availability concerns have eased in recent months, although some builders reported persistent shortages of lumber and insulation. Home sales picked up in March after slowing in previous months. Despite the slow turnover in the housing market prior to March, inventories of unsold homes remained quite low in many portions of the district. Home prices throughout most of the district continued to rise faster than in the nation as a whole. Mortgage demand picked up in March and early April but remained lower than a year ago, with little refinancing activity taking place.

Banking. Bankers report that loans increased somewhat more than deposits over the past month, boosting loan-deposit ratios slightly. Demand fell for home mortgage loans but increased for commercial and industrial loans, commercial real estate loans, and construction loans. On the deposit side, demand deposits, MMDAs, large CDs, and small time deposits all edged up. Almost all respondent banks increased their prime rate in the past month, and most raised their consumer lending rates as well. Lending standards were generally unchanged.

Energy. District energy activity was unchanged in March and early April, as producers remained cautious due to changing oil prices. The price of West Texas intermediate crude oil was almost 25 percent below its March peak by mid-April, but 50 percent above year-ago prices. Despite little change in recent months, the count of active oil and gas drilling rigs in the region was still 80 percent higher than a year ago, and contacts in some energy-dependent areas noted the

turnaround was helping their local economies. Natural gas prices have continued to rise into the spring and are expected to rise further throughout the year, due to small gas inventories.

Agriculture. The district's winter wheat crop was generally in good condition, but timely rainfall will be needed during the growing season to ensure development of the crop. Despite unusually dry weather in much of the district, planting of spring crops has been proceeding on schedule. District bankers expect continued low crop prices to hurt farm incomes this year. As a result, many banks are keeping a close watch on their farm loans, even though farm loan portfolios are generally in good condition. Bankers indicate farm lending standards have not been tightened.

Wages and Prices. Labor markets in most of the Tenth District remained very tight, with reports of labor shortages similar to the recent past. Entry-level workers continued to be very difficult to find, along with welders, plumbers, computer specialists, casino employees, and administrative workers. Retailers and builders, in particular, continued to express disappointment with the pool of potential workers. There was some increase in wage pressures in the manufacturing sector, where some labor unions have made use of the persistent shortage of qualified trades workers in recent contract negotiations. The continued expansion of call centers in the district also has reportedly placed additional pressure on wages for entry-level positions in some places. Prices increased for most manufacturing materials in March and early April, especially for steel, plastic, and other petroleum-based products. Further increases are anticipated. Retail prices also continued to edge up, with similar increases expected in coming months. Builders reported slight price increases for some construction materials, such as insulation, gypsum wallboard, and PVC pipe. Small increases in the prices for these materials are also expected in the near future.

ELEVENTH DISTRICT—DALLAS

Eleventh District economic activity continued to expand at a brisk pace in March and April. Demand for business services remained quite strong, and energy activity was up. Retailers reported generally good sales growth, and auto sales were strong. Demand increased for most manufactured products, but there were signs of slowing for some construction-related inputs. Residential construction activity remained quite strong, but nonresidential activity continued to soften. Financial service contacts reported little change from the last report. Agricultural conditions remain dry in many areas.

Prices. Price pressures were mixed. Most energy and construction prices had fallen but some manufacturing and most service sector prices were up. The price of crude oil has declined steadily since peaking on March 7. Gasoline prices didn't peak until March 20 and are now falling in response to lower oil prices. One factor reported as keeping gasoline prices from falling along with oil prices was low levels of output. Refiners were reluctant to buy crude with prices falling rapidly. As oil prices stabilized near \$25 per barrel, the presumed OPEC target, refiners have been more aggressive in buying crude and producing products to take advantage of better profit margins. Some petrochemical prices have fallen, such as for spot ethylene, in response to increased capacity. Other petrochemical price increases continued to be passed through to selling prices, despite falling oil prices, most notably in polystyrene and polypropylene. Natural gas prices have been unseasonably high due to an unusual number of planned and unplanned coal-fired and nuclear-fired electric generator outages, as well as unusually cold April weather in the Northeast. Storage is building more slowly than normal due to strong demand, and summer price spikes for gas are a possibility as weather heats up. A new pipeline from Canada is expected to boost imports and relieve price pressures before next winter, however. Contacts in the construction industry continued to report that cost pressures appear to have peaked, and noted that this has not filtered to residential selling prices yet, but said competition will push downward pressure through to selling prices soon if demand slows. Computer manufacturers noted upward price pressure on parts that have been in short supply, although this "has not been dramatic." Computer selling prices stabilized, after falling for several months. Paper producers reported increases in input costs, with one saying prices were up 10 to 15 percent across the board. Although prices recently leveled off, metals producers noted some increases in selling prices as a result of higher input prices, including those for energy and scrap metal. Import competition is moderating price increases for some aluminum products.

Imports are also pushing down selling prices for concrete, and prices are expected to decline as much as 15 percent further, despite relatively high fuel costs. Selling prices for timber and lumber have softened and are expected to decline further.

Generally, labor markets remained tight, except those for some types of construction workers. Temporary service firms said labor markets are tighter than ever, and are concerned that an inability to find workers will cut into business. Fees and wages are increasing at some of these firms. Legal firms continued to report significant wage increases. One firm raised associates' salaries three times in the last 120 days, another said associate salaries increased 28 percent since last year, and contacts say they're permitting casual-dressing to stay competitive. High-tech companies reported that labor markets for skilled workers continued to be very tight, and one respondent noted that this has led to a rash of acquisitions of small startups. Metals manufacturers said the labor market for low-end workers remained tight. Skilled workers were also in short supply, with contacts noting difficulty finding truck drivers, maintenance workers, engineers and draftsman. A construction contact noted downward pressure on labor costs, and said framing costs have dropped 30 cents per square foot as a result.

Manufacturing. Manufacturing activity was up for most products, although there was some slowing for cement, paper products, lumber and other "early construction" wood products. Demand increased for primary metals, apparel products, and clay and glass products used in construction. Fabricated metals producers said sales were strong to construction firms and booming sales to telecommunications and semiconductor firms. Orders for high-tech equipment accelerated over the last six weeks, with demand from consumers stronger than from businesses. Contacts reported that demand from Asia and Latin America picked up strongly. Communication devices and laptops posted the strongest growth. Computer manufacturers reported shortages of chip sets and DVD drives, and one contact said they could have sold more laptops if they could have made more. Capacity utilization at Texas Gulf Coast refineries surged in early April.

Services. Demand for business services remained quite strong and nearly all contacts said sales were better than at this time last year. Temporary firms said almost all areas were performing well, including manufacturing, energy and particularly high-tech. Legal firms also reported strong demand, with increased bankruptcy and less litigation work over the last six weeks. Transportation firms also reported strong demand. Trucking firms said activity had been particularly strong.

Retail Sales. Retailers reported generally good sales growth, although the late Easter is providing some uncertainty about comparisons to last year. Contacts expressed concern that stock market volatility would dampen consumer confidence, but noted that there was no apparent slowdown in sales during the week following the Dow's drop. Auto sales have been very strong.

Financial Services. Lending activity was mostly stable, with a few contacts reporting slightly slower C&I loan demand. A large bank said their loan committee recommended tighter monitoring of margin trading accounts. Generally, respondents said interest rates are not high enough to stem loan growth. However, they said increasing interest rates are negatively affecting margins because deposits reprice faster than loans.

Construction and Real Estate. Residential construction and real estate activity has been strong over the last six weeks, with one homebuilder reporting double-digit sales growth compared to last year. Contacts were somewhat less optimistic because they are concerned that recent stock market weakness will dampen consumer confidence and sales. Commercial construction and real estate activity has been slowing, with contacts reporting fewer transactions and developments. Office leasing has also slowed. One contact said that interest costs are now affecting deals.

Energy. Domestic and international drilling activity increased, spurring demand for oil field machinery and services. While the increase was partly due to seasonal factors, contacts were more optimistic that oil service and machinery markets are improving slowly because the depth and complexity of drilling activity is slowly improving. Domestic drilling was up 34 rigs during the first two weeks of April, after remaining stagnant from November to late March. New drilling was for both oil and gas, the first signs of growing interest in oil-directed drilling since last fall. The market remains subdued relative to the price of oil and natural gas. Confidence that the recent OPEC agreement can hold the price of oil near \$25 per barrel might provide the incentive for a significant increase in drilling activity. However, contacts warned that an increase in domestic activity beyond 825-850 rigs is unlikely due to personnel and equipment shortages. The U.S. rig count currently stands at roughly 810 rigs.

Agriculture. Cool temperatures and rains slowed crop development and land preparation. While rains delayed activity in some areas, soil and cattle benefited from the moisture. Insufficient moisture continues to hamper activity in other areas. In areas of deficient rainfall, cattle movement continued, supplemental feeding remained necessary and stock water was limited. In a few areas, some land

previously held out of production by the government CRP program was being returned to crop production. The onion crop is reported to be high quality and high yield.

TWELFTH DISTRICT — SAN FRANCISCO

Summary

Reports from contacts indicated continued strong performance by the Twelfth District economy in recent weeks. Labor markets were tight in most areas, and respondents reported increased upward pressure on wages and total compensation. High oil prices led to increases in petroleum-based goods prices, as well as higher costs in the transportation and agriculture sectors. In addition, some contacts noted increases in the price of natural gas at the wellhead and in the prices of paper-based goods. Otherwise, materials costs and final product prices remained fairly stable. District manufacturers, retail trade contacts, and service providers reported strong demand and no capacity constraints or material shortages. Activity in real estate and construction markets remained vigorous, but growth slowed a bit in some areas during the most recent survey period. Financial institutions reported strong loan demand and good credit quality.

Wages and Prices

Contacts throughout most of the District reported tight labor markets at all skill levels and greater upward pressure on wages and other forms of compensation. Reports of difficulties recruiting and retaining workers with computer and other technical skills were especially prevalent. Seattle and San Francisco contacts mentioned heavy competition for such workers from Internet-related firms. Contacts also mentioned shortages of other types of employees, including middle managers and entry level workers. A respondent in the retail trade sector reported receiving only two applications for over 20 job openings at a new store. Contacts in various states' manufacturing, agriculture, real estate, transportation, retail trade, financial

services, and energy industries cited larger wage increases than in the recent past, both for entry level and experienced workers. Respondents also described an increase in the use of a diverse set of methods for recruiting and retaining employees, such as increases in overtime compensation rates, increases in stock options, employee loans, and cash bonuses for referrals, hirings, retention, and performance.

High oil prices boosted prices for air, water, and ground transportation, gasoline, and some petroleum-based materials. Respondents stated that some District shippers are passing increased trucking costs through to their customers in fuel surcharges. One contact noted an increase in the price of natural gas at the wellhead, but this has not yet been passed through to consumers. Contacts also cited increases in pulp and paper prices in recent weeks.

Beyond these items, materials costs and final goods prices remained fairly stable during recent weeks. Contacts mentioned competitive pressures and increasing productivity as forces keeping prices from rising. A contact from the high-tech sector reported decreases in the prices of microprocessors and some memory chips.

Retail Trade and Services

District respondents reported strong demand for retail merchandise and services and no supply constraints. Contacts in the consumer electronics, gaming, and restaurant sectors noted rapid sales. Demand for radio and television advertising from "dot-com" businesses is strong. Visitor arrivals to Hawaii picked up slightly during the survey period, as increased domestic travel to the islands offset sluggish Japanese tourism. In addition, an increase in the snow pack

contributed to a strong finish to Utah's ski season. One contact reported that use of the Internet is affecting competition and pricing in the retail sector.

Manufacturing

Manufacturing contacts in most parts of the District reported robust demand. Respondents in the pharmaceutical, biotechnology, wood products, and semiconductor industries reported strong sales. An increase in foreign demand boosted high-tech sales volumes. Sales of machine tools rose relative to the same period a year earlier, although exports declined. In the state of Washington, however, commercial and defense-related aerospace orders continued to decline, as did employment in the sector. No capacity constraints or material shortages in District manufacturing were reported.

Agriculture and Resource-related Industries

Increases in fuel costs pushed up costs in the District's agriculture and energy sectors. Respondents from the agriculture sector reported that increases in fuel costs squeezed margins, as such increases could not be passed on to wholesalers or distributors. Similarly, large price increases for natural gas at the well head have not been passed through to consumers.

Real Estate and Construction

Real estate sales and construction activity remained at high levels in most District states, although the pace of growth slowed in some areas. Condo and single-family home prices continued to increase in California, except for some parts of the Central Valley. Hawaii contacts reported increases in home resales, strong demand for construction on Hawaii, Maui, and Kauai, and increases in prices in areas where inventory was low. Oregon respondents wrote that

construction of high-end homes slowed. Contacts from Arizona and Utah reported that homes were staying on the market longer, while, in Washington, residential sales activity and price appreciation slowed. In Idaho, residential construction was flat in January and February compared to a year earlier.

The commercial real estate market also is very strong in most areas of California. Contacts in the state noted that rental space and construction labor were in short supply, and rents and construction costs increased. Office rental rates in downtown Seattle increased, but construction of large, high-tech projects in Oregon slowed in recent weeks.

Financial Institutions

District financial industry contacts from California, Hawaii, Idaho, Utah, and Washington reported strong loan demand, increased deposit growth, and no significant deterioration of loan quality.