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Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

October 2000

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

October 2000

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SUMMARY*

Reports from Federal Reserve Banks generally described the regional economies as growing at a moderate pace during September and early October, but with additional signs of slowing growth in some areas. Activity in Chicago, Minneapolis, St. Louis, Kansas City, and Boston was reported as growing at a moderate rate. The pace of activity had eased in Philadelphia, Atlanta, Cleveland, Richmond, and Dallas, while San Francisco and New York reported solid expansion in most industries.

Retail spending softened slightly in some Districts and the outlook was a little less positive for the tourism sector. Manufacturing activity was generally steady, but some reports noted continuing problems because of labor shortages, higher fuel prices, and competition from imports. Residential housing sales and construction activity continued to slow in most of the country. Commercial real estate markets remained generally healthy, but some reports indicated that activity might be slowing. Reports on agriculture were mixed, while the energy sector strengthened considerably. Labor markets remained stretched, and some Districts indicated increasing wage pressures. Reports also noted higher petroleum-based manufacturing input costs, although strong competition amongst producers continued to prevent the majority of firms from passing on much of the cost increases to their customers.

Consumer Spending: Retail sales have generally slowed from earlier in the year and growth is described as modest. Retailers in New York and Richmond noted some pickup in the volume of sales recently. In the Atlanta, Boston, Chicago, and Philadelphia Districts, recent sales figures had met merchants' expectations. Inventory levels were described as balanced in

* Prepared at the Federal Reserve Bank of Atlanta and based on information collected before October 23, 2000. 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.

Atlanta, Dallas, New York, and Philadelphia, while inventories were somewhat higher than desired in Chicago and Kansas City. Reports on apparel sales were mixed, but early cool weather contributed to some pickup in sales volume. More broadly, the retail outlook has become increasingly conservative since the last report. Merchants in the Atlanta District expect fourth-quarter sales growth will be modest. Dallas District retailers lowered their outlook for the next six months, while retailers in the Chicago region anticipate consumers will have less money to spend because of higher home heating costs this winter. However, merchants in Boston remained generally optimistic about sales growth through the end of the first quarter of next year, and retailers in Cleveland and Kansas City anticipated strong year-end sales.

Reports on recent vehicle sales were mixed but still at generally high levels. Sales in Kansas City were up slightly in September and early October, and dealers were largely successful at managing inventories during the model year changeover period. Auto sales were better than a year ago in Chicago, and inventories were under control. Sales were reported to have slowed in Philadelphia and Dallas, and to have been slightly below last year's record levels in Cleveland.

Services and Tourism: The service sector continued to post solid growth, but attracting and retaining employees remained difficult. Boston noted that the pace of restructuring in the insurance industry has slowed, and little additional retrenchment is planned. Some contacts reported difficulty in finding and retaining employees in information technology and systems areas. There was some softening of revenue growth for service firms in the Richmond District. Dallas reported that the demand for transportation services remained strong even with fuel surcharges, and in San Francisco, there was strong demand for most services.

The outlook for the tourism and hospitality industry was a little less upbeat for the Atlanta and Richmond Districts; both reports expressed concern that rising fuel prices could discourage winter tourists. Minneapolis reported that fall season tourism in its District was on par with a year ago. San Francisco noted that healthy growth in tourism to Hawaii was boosting hotel occupancy rates and room prices.

Construction and Real Estate: Most reports stated that the level of activity in single-family housing markets continued at a healthy level despite slowing sales and construction activity. There have been scattered reports of rising home inventories in the Atlanta, Boston, and St. Louis regions, and some price concessions were reported in the Atlanta District. The Kansas City, New York, and San Francisco Districts reported some pickup in housing activity. Generally, contacts anticipated the market would remain strong, although the pace of construction and home sales was expected to decline further through year-end.

Overall, commercial real estate markets continued to perform well, although there is increasing evidence that construction levels are waning a bit. Contractors in the Atlanta region noted that construction backlogs had declined, and construction has slowed in the St. Louis District. Vacancy rates retreated slightly in parts of the Atlanta, Kansas City, New York, and San Francisco Districts. Site and utility inquiries have declined significantly in central Indiana. Contract work shrank in the Dakotas and Minnesota. In Manhattan, New York, despite rapidly escalating office rents, only a moderate volume of new construction is planned over the next few years.

Manufacturing: Manufacturing activity was generally steady, with only a few areas of continuing weakness. Atlanta, Dallas, Boston, and San Francisco reported expanding activity in the high-tech sector. Manufacturers' capital spending plans were strong in Philadelphia and

Boston, while St. Louis and Atlanta reported expansions in light vehicle production facilities. Although overall manufacturing conditions remain favorable in the New York and San Francisco Districts, weakness in the euro had reduced orders for some manufactured goods. The pace of manufacturing activity was increasing in Kansas City and Minneapolis. Strong demand for household appliances led to a factory expansion in the St. Louis District, while large shipyard contracts were boosting activity in the Atlanta District. San Francisco reported strong sales in the aerospace, semiconductor, and pharmaceutical industries. Refineries were operating at near capacity in New York and Dallas. Less favorably, paper and lumber mill production was slowing and inventories were accumulating according to Atlanta, Minneapolis, and Dallas. Chicago reported that an increase in imports led to slower steel production and softer pricing. Heavy-duty truck producers continued to cut back output in Cleveland and Chicago because of a weaker volume of new orders. In Philadelphia, working hours have been reduced at many manufacturing plants, and inventories have risen. Atlanta noted that the downsizing of the apparel industry continued.

Banking and Finance: Growth of loan demand remained strong in most Districts, but with some softening noted. Overall lending activity was reported as solid in Chicago and Atlanta, and stable in the New York District. Total loans outstanding were up slightly according to St. Louis. Richmond, Kansas City, and Philadelphia reported that growth of lending activity slackened in September and early October. In Dallas, contacts reported that the pace of financial sector activity was slower than a year ago.

In New York, there was a slight pickup in commercial and industrial sector loans, and in Philadelphia and Cleveland, banks reported slight increases in business lending activity. Refinancing activity continued to decrease in New York, Kansas City, and Philadelphia, but

increased in Chicago in recent weeks. Atlanta and New York reported further weakening in demand for both residential and nonresidential mortgages. Real estate and consumer loan demand remained unchanged in St. Louis.

Many contacts continued to express concerns about credit quality, although most reported that overall credit quality was still at healthy levels. In New York, credit standards were tightened further on commercial and industrial borrowers. Commercial lenders in Richmond were monitoring hotel and other commercial real estate loans closely. Chicago reported that business-lending standards remained tighter than earlier in the year. In Atlanta, there were expectations that third- and fourth-quarter credit losses would rise. San Francisco reported that credit quality was generally good, but there was some tightening of credit conditions for commercial real estate lending. Lending standards were generally unchanged in Kansas City. In Philadelphia, credit quality for both business and personal loan portfolios has been steady.

Labor Markets and Prices: Labor markets remained taut, and some reports cited notable upward pressure on wages. In Philadelphia, firms were having considerable trouble finding qualified workers, and many companies raised wages in greater amounts this year than in the past few years. The skilled labor shortage also remained a problem in Boston and Richmond, and employment agencies reported trouble filling job openings in New York. Dallas indicated that while labor markets remained tight, the recent shake-up of Internet companies had freed up some high-tech workers in the District. In Kansas City, employers were increasingly using flexible work schedules to attract and retain workers. Minneapolis reported widespread concern over worker availability and retention. In Cleveland, contacts noted strong wage increases in fast growing companies. Employees at all skill levels remained in short supply in San Francisco and St. Louis, with notable upward pressure on wages.

Petroleum-based input prices rose recently, but strong competition has reportedly prevented many firms from passing on much of the cost increases to customers, except in transportation and certain other areas. Rising costs resulted in increased pressure on profitability for firms in the Atlanta, Philadelphia, Minneapolis, Cleveland, and San Francisco Districts. Price pressures had reportedly diminished somewhat in New York, and with the exception of energy, most prices were stable in Dallas. Cleveland, Kansas City, and Atlanta reported declining building materials prices, such as lumber and drywall. Strong import competition has been keeping prices flat in San Francisco. In contrast, Boston noted that some manufacturers were passing on more of their increasing costs to customers than in previous reports. The increasing cost of health and other insurance programs continued to be reported as a concern in Atlanta, Philadelphia, and Chicago.

Agriculture and Natural Resources: Oil and natural gas exploration and production were reported at high levels in the Dallas, Kansas City, and Minneapolis Districts. Agricultural production results varied greatly across the Districts. St. Louis reported that cotton estimates for District states were below normal for October, reflecting a smaller-than-expected increase in harvested acres and a sizeable drop in yield this year. In the Dallas District, much of the cotton and sorghum crop has been declared a total loss. Recent rains also came too late for many crop farmers throughout the Atlanta District. On the other hand, record corn and soybean harvests are expected in Kansas City, and Chicago reported that October's corn and soybean production in the District is expected to be up 6 percent and 5 percent, respectively, from a year ago. Farmers in North Carolina and Virginia made good progress harvesting the peanut and cotton crops. Pasture and livestock conditions ranged from fair to excellent in West Virginia.

FIRST DISTRICT - BOSTON

The First District economy continues to expand at a moderate pace, although signs of slowing continue to emerge. Most manufacturing contacts are doing more business than a year earlier and retailers' sales are meeting expectations. Labor shortages remain a problem. Manufacturers are paying more for inputs and raising their own prices more than in previous reports. Local retailers, however, say vendor price increases are only sporadic and selling price increases are nonexistent. Real estate contacts say housing markets in New England have slowed.

Retail

Most retail contacts report that sales are growing at expected rates. One exception is an apparel seller with sales growth slightly below expectations. Employment levels are mostly holding steady. Labor shortages appear to be leading retailers to boost wages in order to retain critical help. Overall wage growth is said to be running at a 4 to 5 percent rate, in the upper half of the 3 to 5 percent range reported previously. The tourism sector reports that the available labor pool has been exhausted, constraining the operations of new start-up restaurants, in particular.

Merchants generally say that they are not raising selling prices and that vendor price increases are only sporadic. Two exceptions are that lumber prices continue to decline and hotel rates are rising in response to continued excess demand for rooms. Most contacts do not seem concerned about higher fuel prices; retailers say that profit margins are slightly higher than a year ago because of improvements in productivity or efficiencies elsewhere in their cost structures.

Most retail contacts plan some modest expansion of their operations during the next six months. Looking forward, they are generally optimistic about the overall economic outlook as well as their own sales growth prospects through the first quarter of 2001. However, they express considerable uncertainty concerning prospects beyond the first quarter.

Manufacturing and Related Services

Most First District manufacturing contacts indicate that recent sales or orders are up relative to a year earlier. Capital goods makers report that very strong double-digit growth is

continuing in semiconductor, computer, non-automotive transportation equipment, and medical equipment markets. By contrast, suppliers of equipment and parts used in commercial construction and automobiles generally report that sales growth is weaker than in the recent past; in some cases business is off from year-ago levels. A contact making parts for communications devices reports that a large customer recently cancelled an order. A couple of manufacturers of consumer instruments express disappointment that sales are no higher than year-earlier levels.

Close to one-half of the manufacturing contacts say that parts shortages or capacity constraints either have caused production delays recently or are expected to cause delays in coming months. Items in short supply include electronic components, some metals, and oil derivatives.

Manufacturers indicate that they are paying much more for plastics and fuels. There are also reports of upward cost pressures for paper, chemicals, metals, and postal and shipping services. Some contacts have managed to reduce input costs by finding alternative suppliers or holding on-line auctions. About one-third of the contacts report that they have raised prices or will do so shortly. However, manufacturers selling to large retail chains or automakers indicate that these customers are forcing them to constrain or reduce their prices.

Employment is largely flat or up modestly, although some firms in technology industries are expanding rapidly. Several companies indicate they would hire more workers were it not for very tight labor markets. Production worker wage increases are typically in the 3 to 4 percent range. Professional, technical, and managerial salary increases are mostly 5 to 7 percent, with several respondents indicating that they have had to make greater upward adjustments than originally budgeted.

Insurance

Contacts in the insurance industry indicate that restructuring in the industry seems to be slowing slightly, with the integration of acquisitions and the demutualization process moving toward completion. Respondents are, for the most part, evenly split between those with constant

employment and those making slight cutbacks. Price competition seems to be settling down, with many contacts describing insurance prices as having stabilized.

Some insurance contacts continue to note difficulty in finding and retaining employees in the information technology and systems areas. Attempting to increase retention, some mentioned programs to improve the work environment in addition to wage increases. Most contacts continue to say that salaries are increasing in the 4 to 5 percent range.

On average, contacts are slightly more optimistic about their outlook now than in July. Two areas of concern, however, are the effects that a downturn in the stock market would have on the default risk of corporate bonds and the implications of possible changes in the health care system on health insurance markets.

Residential Real Estate

Residential real estate markets in New England are said to be slowing. Although most contacts report active markets, they cite several signs of slowdown. Sales are starting to drop, especially at the high end. Contacts attribute the decline to lower demand, partly as a result of changes in the stock market. A Massachusetts contact indicates that the number of detached houses and condominiums sold in the Commonwealth dropped by 11 and 6 percent, respectively, over the year ending in second quarter 2000. Vermont contacts cite lower demand and rising inventories of new homes, especially at the higher end of the market. Inventory in other states, however, remains very low. New Hampshire and Rhode Island report very low inventory levels and active markets. Respondents say that prices have leveled off at the upper end of the market, but continue to rise moderately for lower- and mid-priced homes and condominiums. Most contacts expect sales to slow further during the winter and prices to remain flat.

SECOND DISTRICT--NEW YORK

The Second District's economy has shown few, if any, signs of slowing since the last report, but price pressures have diminished. Retailers report that sales recovered somewhat in September, following a sluggish summer, and continued to improve in early October, running on or close to plan. Almost all retail contacts say that selling prices have declined a bit. Commercial real estate markets have tightened further throughout the New York City area; office rents continued to soar in Manhattan but have increased moderately in the suburbs. Housing markets remain strong, despite recent volatility in the financial markets. Regional manufacturers report that business conditions remain favorable, while commodity price pressures have abated. Finally, bankers report little change in loan demand, tightening credit standards on commercial loans, and falling delinquency rates.

Consumer Spending

Retail sales, which had been lackluster for most of the summer, have picked up somewhat in recent weeks. On average, same-store sales were little changed from a year earlier and below plan in September, but were up moderately (and on or close to plan) in the first half of October. Apparel sales, though still sluggish in a few cases, were said to have improved since the last report. Two contacts indicate that low import prices have prompted them to carry an increasing share of imported merchandise, especially apparel. But most retailers note that the bulk of their goods already come from overseas. One contact notes that there has been a relative slowing in demand for merchandise targeted to the lower end of the income spectrum and conjectures that this reflects cash flow issues—specifically, the impact of higher gasoline prices on discretionary income, as well as concern about higher heating oil prices. Most retailers report that inventories are in fairly good shape; a few describe them as “a bit heavy,” but one describes them as “a little thin.”

On balance, selling prices have declined recently, reflecting an increasingly competitive retail

environment; merchandise costs have been essentially flat, with falling prices for apparel and electronics offset by higher prices on household supplies, as well as health and beauty products. A few retailers indicate that rising electricity and utility costs are having an effect on their bottom line, but only one is being adversely affected by transportation costs. The general consensus is that, for the most part, rising transportation costs have been absorbed by vendors. Labor shortages persist, but retailers continue to hold the line on wage increases,

Construction and Real Estate

Commercial real estate markets across the New York City area have tightened further. In Manhattan, office rents continued to soar in the third quarter—up more than 30% over the past year—while availability rates (space either vacant or available in the next 12 months) fell to 3.2 percent in Downtown and 3.2 percent in Midtown. Moreover, based on the moderate volume of new construction in the pipeline, the total inventory of office space in Manhattan is projected to increase by only 2 to 3 percent over the next three years. Vacancy rates in the nearby suburban markets also fell, though from higher levels, while office rents in these areas are up roughly 5 percent over the past year. Separately, in Buffalo, a commercial real estate firm reports that businesses are increasingly interested in locating downtown, in order to access the high concentration of fiber-optic lines.

Housing markets across the District have remained strong since the last report. Albany-area realtors indicate that the local housing market remained strong in the third quarter, with both sales and prices up from a year earlier, despite a strong 1999 comparison. Markets in other parts of upstate New York remain mixed. Homebuilders in northern New Jersey say that recent volatility in financial markets has had no discernible effect on the housing market—at most, the queues for new custom construction have shortened a bit. An industry expert says that prices of both new and existing houses are “still going through the roof.” In addition to the ongoing home construction and remodeling boom,

demand for skilled construction workers in New Jersey is being boosted by a wave of new school construction that has begun recently and is expected to continue for a number of years.

Similarly, New York City's co-op and condo market shows few signs of weakening. In the third quarter, prices of prime Manhattan apartments continued to run roughly 20 percent higher than a year earlier, according to two leading real estate firms. However, activity slowed, as roughly 15 percent fewer apartments sold in the third quarter than a year earlier and the average listing time rose.

More recently, local real estate contacts describe market conditions as relatively strong in the first half of October, with recent volatility in the stock market having no apparent effect. In general, apartment sales have picked up, after a summer lull, though the market is described as "less frenzied" than during the spring—bidding wars still occur, but they have become much less common than earlier in the year.

Other Business Activity

Regional manufacturers report that business activity remains strong, while upward price pressures have clearly abated. Buffalo purchasing managers report that manufacturing activity accelerated in September, while price pressures were less widespread than in August. Two local manufacturers report that domestic demand is still strong, but that overall sales have slowed since mid-year, largely due to weakness in the Euro currency. Oil refineries are said to be running flat out, to the point that they are not even pausing production for routine maintenance.

In the New York City area, purchasing managers continue to report sturdy growth in manufacturing activity, though gains were less widespread than in August. While purchasers note widespread price increases for energy, chemicals and paper, as well as a variety of service inputs, overall price pressures were reported to be less pronounced than in August. No information is available yet on the cost of paper for the upcoming World Champions' parade.

Rochester-area purchasers report continued improvement in business conditions, and ongoing

increases in employment; they also note a marked diminution in price pressures, which had been fairly widespread for most of this year. Separately, despite ongoing layoffs at major local manufacturers, a Rochester-area employment agency reports persistent trouble filling job openings—they report an adequate pool of available workers but say firms are not paying enough to attract them.

Financial Developments

Overall demand for loans at Second District banks remained stable since the last survey, with a slight pickup in the commercial and industrial sector offsetting some further weakening in demand for mortgages—both residential and non-residential. Refinancing activity continued to decrease, as it has for the past year and a half.

Credit standards were tightened further on commercial and industrial borrowers, but were little changed for other customers. Lending rates were little changed for all types of loans, but average deposit rates rose, on net—50 percent of those surveyed report higher deposit rates than last time, while only 10 percent say they lowered rates. Delinquency rates fell for all loan categories, with the most notable decline in the consumer loan segment.

THIRD DISTRICT – PHILADELPHIA

Business activity in the Third District has eased in some sectors recently. Manufacturers report a slight drop in shipments and orders in October. Although retailers indicated that consumer confidence remains high, retail sales have risen by only a modest amount compared with last year. Auto sales have slipped but remain above last year's level. Bank lending has edged down as declines in consumer and real estate lending have outweighed a small gain in commercial and industrial loans.

The outlook among the business firms contacted for this report is positive despite current signs of slower growth; the expansion in business activity is expected to be slight, however. Manufacturers as a group expect a rebound in demand, but not in all industrial sectors. Retailers forecast improvement for the fall selling season, but they anticipate only a slight year-over-year gain. Bankers anticipate a pickup in lending, but they expect growth to be slow.

Tight labor market conditions prevail in the District. Firms in many industries report difficulty meeting their needs for workers, and several companies indicated that they have raised wages by greater amounts this year than in the past few years. The upward trend in input prices continues at area manufacturing plants, and the number of retailers reporting increases in wholesale prices is growing. However, both manufacturers and retailers indicate that competitive pressure is limiting their ability to pass cost increases along to their customers.

MANUFACTURING

Manufacturing activity was edging down in mid-October. Although business was predominantly steady among area firms, more companies noted declines in shipments and new orders than increases. Declining demand was especially affecting producers of textiles, apparel, lumber, and primary metals. In contrast, makers of business and industrial equipment were continuing to post gains in new orders. With the slackening pace of production, working hours have been reduced at area plants and inventory levels have risen.

Looking ahead, on balance manufacturers polled in October expect business to pick up moderately during the next six months. Prospects vary considerably by sector, however. Makers of apparel and construction materials anticipate further declines in orders, but makers of textiles and metals expect demand for their products to turn up, and producers of business equipment forecast continued growth in orders. Capital spending plans at area plants remain strong, overall.

RETAIL

Retail sales in the Third District rose modestly in September and October compared with the same months a year ago. Sales of consumer electronics, appliances, and home furnishings remain on an upward trend. Apparel sales have been mixed. Cold weather has boosted sales of winter coats, and some women's clothing stores have posted strong gains with fall merchandise, but in general, apparel sales have not been rising as strongly as sales of other goods. Nonetheless, the beginning of the fall selling season has been in line with retailers' expectations, and store executives generally indicated that inventories were consistent with the sales rate.

Most of the merchants surveyed in October said consumer confidence appeared to be high despite concerns about oil prices and financial market volatility. Retailers cited continuing high income in the region as a source of strength for consumer spending. But with few new products to stimulate expanded shopping, most retailers expect sales for the fall season to increase only a few percentage points from last year's results. Auto dealers also expect slow growth in sales.

Auto dealers reported a slight dip in sales in October compared with September. Compared with October of last year, however, sales were up slightly. Dealers expect further slowing in the growth rate of sales, especially of sport-utility vehicles. The market for these vehicles is reaching a maximum, according to dealers.

FINANCE

Total loan volume outstanding at Third District banks has edged down in recent weeks. Although banks generally posted slight gains in business lending, consumer and mortgage lending eased. Bankers indicated that credit card loan volume had fallen

slightly, although other forms of personal loans have remained level. Real estate loan volume has declined. Residential mortgage refinancing and home equity lending have slowed, and new loans have been insufficient to make up for runoffs of outstanding real estate loans.

Bankers reported that credit quality for both business and personal loan portfolios has been steady. However, several banks indicated they were stepping up reviews of commercial borrowers out of concern that slowing business activity might adversely affect their profitability and debt-service capacity.

Bankers contacted for this report expect loan growth to resume but to be slow for the rest of the year. They anticipate slower economic growth and increasing consolidation among business borrowers, which will limit demand for commercial credit. Even in the context of slow growth in loan demand going forward, several bankers noted that rising funding costs and lagging deposit growth might limit their ability to meet planned loan and profitability levels.

WAGES AND PRICES

Firms in nearly all the major industry sectors in the District report continuing difficulty in finding enough qualified workers. Open positions remain unfilled for all skill levels from unskilled and entry-level positions to professional specialties. Even in sectors where activity is reported to be slowing, firms are unable to hire all the workers they would like. Several firms in the retail and services sectors said they have raised wages and salaries recently by greater amounts than they did in the past few years.

Rising costs for fuels and other petroleum based products are affecting nearly all firms as well as consumers in the region. In the construction, manufacturing, and retail sectors higher delivery charges are widespread. Costs for other goods are trending up, but the increases do not appear to be accelerating. However, the number of retailers reporting increases in wholesale prices has been growing. Nonetheless, recent polls of stores and manufacturers in the region indicate that increases in the prices they charge for goods are being restrained by tight competition.

FOURTH DISTRICT - CLEVELAND

General Business Conditions and Labor Markets

Growth in economic activity in the Fourth District has slowed recently, particularly in durable goods industries, which are vulnerable to the strong dollar abroad. Prices are stable for most goods except for fuel prices, which are rising, and the price of steel, which is falling.

The demand for most categories of temporary workers has declined since the summer, and contacts do not expect demand to increase by year's end. Even so, administrative secretaries remain difficult to find. Banks and trucking firms reported difficulty in finding and hiring qualified permanent employees. In the retail sector, store clerks are expected to be in especially high demand during the holidays. Union contacts reported strong wage increases in companies that have experienced large growth. In other companies, particularly those in which workers could be replaced with machinery or low-skilled labor, unions are seeing only modest wage increases.

Construction

Residential construction has been steady for the last six weeks, although at a lower level than last year. Prices for new homes have fallen. The number of residential building permits has declined, a fact that some contacts see as indicating a longer-term slowing in the industry. The shortage of construction workers seen at the beginning of the year has disappeared.

Although commercial building activity is not growing as briskly as it was at the beginning of the year, it continues at a fairly steady and high level. However,

construction for the retail trade industry has grown, while office and hotel building has declined. Contacts reported difficulty in finding high-skilled trade workers, although the scarcity seems to have abated in the last two months. Prices have fallen slightly for many materials and noticeably for drywall.

Industrial Activity

The demand for steel has declined, and inventories at the steel service centers are high. Even though rising energy prices have increased the cost of production, producers of hot-rolled steel have cut prices twenty percent since May and expect to cut prices an additional five percent by the end of the year. Demand for U.S. steel has declined partly because the high value of the American dollar has made U.S. steel more expensive than steel produced elsewhere. However, the auto industry has maintained a high demand for American steel. Heavy truck manufacturers continue to expect large cuts in production. Equipment and machinery orders have decreased slightly. The high exchanged value of the dollar has also reduced the demand for machinery.

Trucking and Shipping

Demand for trucking services reached record levels in September. Demand is expected to decline slightly in October but still be considerably higher than at the same time last year. High petroleum prices have made profit margins slim, particularly for smaller shipping companies and are said to be behind recent price increases for trucking services.

Consumer Spending

District retailers reported stronger sales than expected in the third quarter. Year-over-year growth is about two percent. Women's apparel and household goods are selling well, while menswear is not. Contacts expect unusually strong end-of-the-year sales.

Auto dealers that reduced the price of new autos because of manufacturers' incentives saw steady sales for the last six weeks, while those who did not have suffered declines of up to ten percent. Despite this, overall auto sales are only slightly below last year's record levels. Used cars are also selling at a steady pace, although used-car inventories are at a high level. In spite of high gasoline prices, consumers are still buying light trucks and larger autos.

Agriculture

District yields are reportedly above average, even though weather was wet in the north of the District. Oil prices are beginning to affect farm profits, especially through the higher price of fertilizer, and prices for farm output have fallen since last year. Most farmers reported that they still expect a small profit at the end of the year.

Banking and Finance

Most contacts reported a slight increase in commercial lending over the last six weeks. Demand for consumer loans, especially mortgages, was softer than earlier in the year. Bankers connected the decline to consumers who were waiting to see if interest rates would fall. Some contacts reported a sharp decline in auto loans, which some attributed to increased use of financing through car companies. Credit card

delinquency went up slightly. Although agricultural loans are usually a small proportion of area banks' loan portfolios, there has been an increase in these loans for capital improvements. Many banks reported that high oil prices posed some risk to their portfolios, particularly because of loans to trucking firms.

FIFTH DISTRICT – RICHMOND

Overview: The Fifth District economy expanded at a solid pace in September and October, though growth was less rapid than in our previous report. Retail sales remained strong; activity at department stores and “big-box” retailers throughout the District expanded somewhat faster in recent weeks. Revenue growth at District services firms, however, softened, as did the growth of manufacturing shipments. Activity in the real estate and financial sectors increased more slowly as contacts said demand was tempered by concerns about economic growth prospects. In labor markets, skilled workers generally remained scarce. Wage growth picked up in retail but eased slightly in manufacturing. Price increases remained generally modest in manufacturing, and they were only slightly more pronounced in services. In agriculture, unusually favorable weather accommodated crop harvesting.

Retail: Most District retailers reported that sales grew at a somewhat faster pace in September and October. At big-box stores in the South Carolina Midlands and in Richmond, Va., for instance, contacts reported that sales rose substantially in recent weeks. In addition, the manager of a large department store in Charleston, S.C., said that customer traffic was up and that his store had added salespeople as a result. A department store contact in Virginia Beach, Va., also reported an increase in staff, in part because the local labor market had “loosened a bit.” In contrast, a department store manager in southern West Virginia reported slowing customer traffic, and noted, “People aren’t buying early for Christmas.” Retail wages rose at a quicker pace in September while prices were little changed.

Services: Firms in the District reported that they encountered somewhat lower demand in recent weeks. A contact at a Maryland brokerage firm, for example, said he had detected a more cautious tone among investors in the wake of stock market fluctuations in recent weeks. A manager at a hotel in Fayetteville, N.C., reported a slight softening of bookings and increased competition, but another hotelier in North Carolina noted only a seasonal slackening in demand. Most contacts said there had been little change in hiring practices or wage offers. However, there were some exceptions. A manager at an engineering services firm in central North Carolina reported that his firm recently increased salaries “astronomically” to attract and retain professional employees.

Manufacturing: Fifth District manufacturing activity expanded at a more modest pace since our last report. Shipments increased more slowly in September, although new orders expanded at a solid rate--fueled by stronger orders for fabricated metals, industrial machinery, and electronic equipment. An industrial machinery and equipment manufacturer told us that his business picked up after a summer slowdown and that the business climate remained good. At District factories, employment levels were little changed while the average workweek pulled back and wages grew more slowly. Prices for manufactured goods rose only slightly, according to respondents.

Finance: District loan officers reported that lending activity growth slackened in September and October, amid borrowers' worries about the strength of future economic growth. A commercial banker in Charlottesville, Va., said that higher oil prices and a sharp drop in the value of the euro had contributed to "more caution among borrowers." Several commercial lenders reported that they were monitoring commercial real estate and hotel loans more closely because they believed these sectors could be particularly vulnerable in a slowing economy. Nevertheless, a Richmond, Va., banker stressed that she would continue to lend to strong companies in these industries. A mortgage lender in Greenville, S.C., noted weaker demand for residential mortgages, despite continued strong residential building activity. He reported "lots of competition" from lenders affiliated with large home building companies.

Real Estate: District residential realtors and homebuilders reported steady to slower activity in real estate activity in September and October. Home sales received a boost from modestly lower home mortgage rates during much of the period. A realtor in Bel Air, Md., noted that sales of single family homes were stronger there as "lower mortgage rates put life back into the market." A homebuilder in Tidewater, Va., said that customer traffic through new homes was holding steady, "but there was more looking than buying." In addition, homebuilders in Charlotte, N.C., and Myrtle Beach, S.C., reported that previously strong sales of upper-end homes had slowed. Building materials costs eased, led by declines in lumber and sheetrock prices.

Commercial realtors reported that growth moderated in recent weeks. Several contacts described buyers as having a "wait and see attitude" until after the presidential election in November. Still, commercial realtors in Virginia and West Virginia reported

steady demand for office and industrial space. Supplies of Class A office space remained tight in most metro areas of the District and a contact in Charleston, S.C., noted a shortage of warehouse space. Looking forward, realtors in Virginia anticipated a stronger commercial office market in light of the recently announced major expansion of a credit card company located there.

Tourism: Tourism activity was somewhat stronger in September. A hotelier on the Outer Banks of North Carolina said that nearly perfect weather in recent weeks had contributed to strong fall bookings. She indicated that the increasing popularity of rockfish and blue marlin fishing tournaments had also been a factor. Resorts in mountain areas also experienced stronger tourist activity. Looking ahead, however, several contacts cautioned that higher gasoline prices could trim their revenues in coming months.

Temporary Employment: Demand for temporary workers generally remained strong since our last report. Light industrial workers and administrative workers with computer skills continued to be in high demand across the District. A contact in Rockville, Md., said that the health care industry was increasingly seeking administrative workers with computer skills. He added that suitable employees remain hard to find, noting that he could add only one worker last week, leaving most vacancies unfilled. Temporary workers placed by agencies continued to be hired for permanent positions by firms looking for dependable employees. Wages for temporary workers generally remained steady since the last report. Most contacts expected demand to outstrip supply during the next six months.

Agriculture: Cool temperatures and sunny skies in most areas of the District provided favorable harvest conditions in recent weeks. Farmers in North Carolina and Virginia made good progress harvesting the peanut and cotton crops, but corn shelling was slowed in some areas of Maryland and Virginia as near-record yields caused bottlenecks at grain storage elevators. Some scattered frost damage was reported for soybean and cotton crops in the Carolinas. Pasture and livestock conditions ranged from fair to excellent in West Virginia, but dry weather hampered plans for extended pasture grazing in North Carolina.

SIXTH DISTRICT – ATLANTA

Summary: According to most reports the District's economic growth continues to moderate, and the general outlook is for some further slowing in the rate of growth over the coming months. Although recent merchants' sales have generally met expectations, retailers are planning inventories conservatively for the coming holiday season. Residential building activity and sales weakened and are expected to continue to slow through year-end. Commercial real estate markets remain healthy, and there is little apparent risk of widespread overbuilding at this time. A few large projects are stimulating an otherwise sluggish manufacturing sector. The outlook for the tourism and hospitality industry is less positive than before, but still healthy. Bankers report solid overall lending growth. Tight labor markets and labor quality remain significant problems for many District employers. Few manufacturing and retail firms say they have been able to pass on higher labor and fuel costs to their customers, resulting in increased pressure on profitability. The District's agricultural sector has been severely affected by the drought.

Consumer Spending: District retailers reported that sales continued to slow across the region during the third quarter; however, the impact is relatively less at discount department stores. Most merchants said that sales results during September and early October had generally met their expectations, and this contrasts with our last report that sales in August had fallen below expectations. Retailers reported mostly balanced inventories but are planning conservatively for the coming holiday season. Most do not anticipate the strong sales growth that they experienced in the fourth quarter of last year and do not want to be left with excessive inventories after the holidays. Notably, many retailers are reducing their apparel inventories relative to a year ago.

Construction: Evidence of a slowdown in the District's single-family residential market continues to emerge. Buyer traffic has been down recently in many parts of the District, while inventories have risen somewhat and the use of price concessions has increased. Both builders and realtors noted that home sales had weakened in early October. Contacts anticipate continued moderate slowing in the housing sector through the remainder of the year.

Commercial real estate activity remained strong, with vacancy rates declining slightly in most markets. However, several contractors around the District have reported that construction activity is slowing, backlogs are shrinking, and there have been net declines in occupied space in many areas. Industry experts indicate that the market remains well positioned in general, and there continues to be little risk of oversaturation in the near term.

Manufacturing: Contacts paint a mixed picture of recent factory activity. Military contracts and high-tech industries are continuing to stimulate manufacturing activity in the District. Recent congressional approval for the purchase of F-22 Raptor fighter aircraft and C-1390J Airlifters is a positive development for Lockheed Martin's Marietta, Georgia, plant. The Motorola Corporation recently announced a new corporate campus near Atlanta that could eventually employ thousands. Shipyards in the District report increasing activity generated by large contracts for guided missile cruisers, destroyers, ferries, and barges. In Alabama, Daimler-Chrysler is spending \$600 million to double the size and production capacity of its plant and plans to eventually add over 2,000 workers to its current payroll there. On a less positive note, slowing construction activity is adversely affecting wood product and building material suppliers. The ongoing downsizing of the region's apparel industry also continues, with further announcements of plant closings.

Tourism and Business Travel: Reports from the tourism and hospitality sector are not quite as upbeat as in our last report. Florida contacts are increasingly concerned that rising fuel prices may discourage winter season tourism. “Snow goose” tourism, in particular, is expected to be down from a year ago because of weakness of the Canadian dollar and high fuel prices. One report notes that overcapacity in Florida’s cruise industry, which is resulting in fare discounting, does not bode well for the industry’s outlook. In contrast, current booking figures suggest that 2001 will be a record year for large conventions in Atlanta.

Financial: Strong consumer and commercial loan demand continues to fuel overall growth in bank lending activity. Automobile loan demand slowed slightly, while residential mortgage demand remains flat. District bankers note that net interest rate compression and slower overall deposit growth have been offset somewhat by rising loan volumes and fees. Overall credit quality remains healthy. Bankers expect loan growth to slow slightly through the remainder of the year.

Wages and Prices: Tight labor markets and labor quality remain problems for many District employers, and increasing labor costs are widely perceived as major threats to profits. While the labor market appears to have eased slightly in certain areas, particularly for manufacturing and construction workers, there is continued intense demand pressures in the high-tech and medical sectors. In some cases, unplanned year-end bonuses are going to be offered to key employees in an attempt to maintain staffing levels.

Increases in oil-related input costs and transportation fuel surcharges are widespread. The rising cost of healthcare and other insurance programs continues to be a concern for many employers.

Agriculture: Recent rains came too late to help many of the District's crop farmers, and the overall cost of the drought in terms of lost production and income has been substantial. The regional agricultural disaster declarations now cover all of Georgia and Mississippi, 59 of Florida's 67 counties, and 64 of Alabama's 67 counties, making these areas eligible for federal assistance. The director of Louisiana's crop emergency board has requested that the Governor declare an agricultural disaster in 40 of the state's 64 parishes.

SEVENTH DISTRICT—CHICAGO

Summary. The Seventh District economy continued to expand moderately in September and the first three weeks of October. Growth in consumer spending remained a little slower than earlier in the year and price inflation at the retail level generally remained subdued. Nonresidential building activity was again robust and sales of both new and existing homes remained resilient. Manufacturing activity was decidedly mixed, and the pricing environment for most manufactured goods remained very soft. Overall lending activity picked up recently as household borrowing showed signs of a modest rebound. The District's labor markets remained very tight, and concerns over rising health insurance costs were expressed more frequently. The fall harvest progressed rapidly during October, with increased production by District farms contributing significantly to an expected record output for both corn and soybeans.

Consumer spending. Retail spending remained somewhat softer than earlier in the year, but was said to be meeting most retailers' generally low expectations. National chains reported that sales gains in the region were approximately at the national average. Cooler weather was credited with boosting sales for both men's and women's apparel. Appliances and electronics were again cited as selling particularly well. Retail inventories were said to be slightly high, and most contacts noted more promotions and slightly higher discounting. Regional auto sales were better than a year ago and inventories were under control. One dealer group noted that out-the-door vehicle prices were down, as higher incentives more than offset higher market interest rates. September was one of the strongest sales months for casual dining in a long time, according to an industry contact, though early October appeared to be a little slower. This contact also noted some softening in high-end dining and definite slowing at the lower end. With the exception of higher fuel costs, price inflation at the retail level remained subdued. While there were few reports that higher energy prices were having an impact on consumer spending, many contacts felt that first quarter 2001 sales could be affected as higher home heating costs bite into consumers' pocketbooks.

Construction/real estate. Overall construction activity was strong again in September and early October. Nonresidential building generally remained robust, but contacts indicated that there were some signs that activity may slow in coming months. Contacts suggested that most nonresidential segments (office, highway, and light industrial) remained strong with no discernible shift in momentum. Development of retail space in central Indiana was said to be very strong.

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However, some local economic development officials in the area reported that site and/or utility rate inquiries fell off significantly in recent months, a sign that one contact felt may be a precursor of slower development in coming months. Contacts generally reported that residential activity was still very good, but off slightly from the same period last year. Homebuilders indicated that both building activity and sales were slightly lower than at this point last year, but remained strong. Realtors suggested that sales of existing homes were mostly meeting their “realistic market expectations,” though falling short for their goals of year-over-year increases. Contacts acknowledged that increasing sales would be very difficult after three straight very good years. Median home prices continued to show healthy gains from a year ago, but higher-priced homes, where product differentiation is more apparent, were said to be appreciating more rapidly than lower-priced homes.

Manufacturing. Manufacturing activity was mixed in September and most of October. Light vehicle sales nationwide remained very strong, which buoyed production, but inventories were slightly high and producers continued to spend heavily on incentives, particularly on 2000 models. Some contacts hinted that light-vehicle production may slow in the fourth quarter of 2000 or early in 2001. New orders for office furniture continued to increase, and one large producer was able to push through price increases for the first time in five years. Production of heavy equipment was said to be off slightly, the result of soft new orders and some inventory building. An increase in imports led to slower domestic steel production and a softer pricing environment in recent months, even as steel consumption remained at an all-time high. A major producer of gypsum wallboard reported that the company’s nationwide shipments (year-to-date through September) were flat from last year, but suggested that industry-wide shipments may have been down slightly. Wallboard prices were off substantially, however, as industry capacity increased and capacity utilization rates decreased. New orders for heavy trucks were very weak and industry contacts reported that they were running out of backlog. With a sizable inventory overhang for both new and used trucks, industry analysts were wondering if this is a one-year downturn, or if it will last for two or three years. With the exception of increases reported by office equipment producers, the pricing environment remained very soft for manufacturers, and many contacts reported lower output prices.

Banking/finance. Overall lending activity remained solid in recent weeks as household lending picked up modestly. Bankers reported that refinancing and home equity lending increased in recent weeks, as did credit card lending. One contact said that some customers who had taken out mortgages early in the year were recently taking advantage of lower fixed-rate mortgage rates.

Overall consumer loan quality was said to be good and improving, as defaults were down. Business lending remained strong and there were few signs of waning demand. Business lending standards remained tighter than earlier in the year, and overall loan quality was reportedly good. One bank did note a slight deterioration in business portfolio quality, adding that it was structural and not cyclical. A large insurance firm in the District reported that the pricing environment was “finally” firming and that premiums and profits were increasing. These premium gains were the first in well over two years, according to this contact.

Labor markets. Labor markets remained very tight as the average unemployment rate for District states, which had been trending up, showed a slight decrease in September for the first time in six months. Employment growth in the region continued to be constrained by worker availability and remained well below the national average. According to a recent survey in Michigan, a significantly smaller share of small businesses reported higher employment levels in recent months than they had for the same months in 1997-99, suggesting that the very tight labor markets may have prevented small businesses from expanding. However, some contacts reported having more success in finding workers. One contact noted that retention rates were improving in the casual dining industry, and a large freight hauling company added that the company was “actually getting applications” from potential truck drivers. There were few reports of intensifying pressure on wages, but health insurance costs remained a concern. Many businesses were planning some form of change to their benefit plans (higher deductibles, tiered employee contribution rates, alternate choices, etc.), but very few were considering discontinuing coverage altogether since competition for employees remained so intense.

Agriculture. The fall harvest progressed rapidly during October with favorable weather conditions across the District. However, the lack of rain exacerbated low soil moisture conditions in portions of the District’s western region, which hampered the development of fall planted crops, and imposed further stress on pasture land. October’s corn and soybean production in District states (just under 50 percent of the U.S. total) was expected to be up 6 percent and 5 percent, respectively, from a year ago, according to the USDA’s forecast. Such gains would be somewhat smaller than for the nation as a whole, but, nonetheless, would contribute to an expected record output for both crops. Milk production continued at high levels in District states, with September output up 16 percent from a year ago. The District’s apple crop, grown primarily in Michigan, was expected to be about 23 percent lower than an unusually large 1999 crop, in contrast to a slightly larger crop nationally.

EIGHTH DISTRICT - ST. LOUIS

Summary

District economic activity is expanding moderately overall, with various high-tech and manufacturing firms reporting expansions and some growth in demand. Nevertheless, many District firms continue to have difficulty meeting their staffing needs. Not only have some firms upped their referral and retention bonuses, but upward wage pressures appear to be surfacing. High fuel costs continue to bite into some firms' profit margins, particularly at trucking companies. In other sectors, signs of a moderate slowing in the pace of economic activity are still apparent. Home sales and new residential construction are down from their year-earlier levels. Median home prices are also down slightly in most parts of the District. Loan growth at District banks has been marginal, with most strength coming from commercial and industrial loans. Total deposits continue to fall somewhat. The hot and dry weather conditions that continued through late summer hurt cotton production and yields. Early reports also indicate that some of the soybean crop was damaged by an early frost in southern parts of the District.

Manufacturing and Other Business Activity

Sales and employment growth remain steady at District firms, as contacts report moderate demand growth overall. However, with parts of the District reporting some of the lowest unemployment rates in the country, firms in nearly all industries continue to struggle finding workers. Contacts still note that skilled jobs, such as those in the high-tech industry, are particularly hard to fill. Firms report that job fairs and referrals from current employees have been the most successful avenues for recruiting new employees. Current employees who refer successful job candidates are reportedly receiving large bonuses—in some cases, more than \$1,000. (One firm reports that it recently increased its referral bonus to \$1,500 from \$500.) Some upward wage pressures also appear to be surfacing. For example, in Columbia, Missouri,

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which has an unemployment rate of about 1 percent, firms report that \$7 per hour has become the typical wage for many low skilled jobs, which would traditionally pay minimum wage. Similar reports are arriving from other parts of the District as well.

Although the technology sector continues to report difficulty recruiting workers, high-tech companies are still opening and expanding facilities in the District. In the Louisville and St. Louis regions, expansions of several technology firms over the past few months have created strong high-tech belts in those areas. A handful of other expansions have been reported as well. Toyota, for example, has broken ground at its Indiana campus for a new minivan plant, which will eventually employ 2,000 additional workers. Hewlett-Packard plans to open a new distribution center in Memphis, creating 500 jobs. A contact reports that strong demand for household appliances has led an Arkansas firm to expand its production line.

A mild decline in demand was felt in a few industries, such as mining, chemical production and some heavy manufacturing, which led a few firms to downsize. Many District firms, especially smaller trucking companies, continue to see their profit margins being squeezed because of higher fuel costs. The recent tire recall forced the Ford plant in St. Louis to remain closed for a third week because it was not receiving tires for its vehicles. At the same time, though, Bridgestone/Firestone plans to lay off 450 workers at its Decatur, Illinois plant because of a drop in demand for its tires.

Real Estate and Construction

During September and into October, home sales in most District areas have continued their slowing trend. Real estate agents still cite relatively high interest rates as a reason. As a result of the slower sales, inventories of homes, especially those in the \$120,000 to \$200,000 price range, continue to rise in several parts of the District. Still, agents believe that home sales this year will come close to setting another record. Median prices of homes in many areas of the District are currently down from their year-earlier levels.

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The trend in new construction has mirrored that of recent sales. Residential construction (year-to-date) in almost all District metropolitan areas has continued its decline in September, when compared with year-earlier levels. Monthly construction numbers in September, however, are up somewhat from August. Commercial construction has started slowing in many parts of the District, which has resulted in a number of commercial contractors laying off workers.

Banking and Finance

Total loans outstanding at a sample of mid-sized and small District banks are up slightly since the end of August, with almost all of this growth coming from commercial and industrial loans. Both real estate and consumer loans are essentially unchanged over the period. During this same time, total deposits at these banks have declined slightly. District banks continue to struggle to find funding sources for their (even mild) loan growth.

Agriculture and Natural Resources

USDA cotton production estimates for District states are down in October, reflecting a smaller-than-expected increase in harvested acres and a sizable drop in yield. Hot and dry weather conditions, which continued through late summer, hurt the cotton crop, especially in Mississippi. Reports from Delta cotton farmers suggest that yields are running far below what many had expected.

Winter wheat planting in Illinois, Indiana, Kentucky and Mississippi is behind last year's pace because of dry soil conditions. Although recent rainfall has improved the general outlook for the winter wheat crop, more rain is needed to ensure proper germination and to replenish topsoil moisture overall. An unexpected frost in early October has reportedly damaged some of the soybean crop in southern parts of the District, leading to yield loss and quality concerns. On a positive note, the soybean and corn harvests are ahead of last year's pace in many District states.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy continues to grow at a moderate pace. The growth for consumer spending remains slower, as well as for the construction, tourism and manufacturing industries. Meanwhile, energy and mining activity continues at a strong rate. Although some signs of weakness persist, most district farmers are having a good harvest and the expected government aid is larger than last year. Labor markets are still tight as businesses struggle to attract and retain workers. Overall price increases are moderate, but significant increases were noted for energy and employee benefits.

Construction and Real Estate

The pace of commercial construction is slowing. Building contracts awarded in the Dakotas and Minnesota decreased 2 percent for the three-month period ending in August compared with the same period last year. A Minnesota contractor said that building activity is level with a year earlier and that dry weather this fall has helped some construction projects finish ahead of schedule. In contrast, September construction permits in Rochester, Minn., were the second highest month in city history.

Homebuilding remains soft. Housing units authorized are down 10 percent in the district for the three-month period ending in August compared with a year earlier. A building official near Butte, Mont., reports slow home construction compared with a year ago, and a Minneapolis-St. Paul area mortgage consultant reports that mortgage activity has dropped compared with a year earlier.

Consumer Spending and Tourism

Growth in consumer spending has decreased from the rapid pace earlier this year. A major Minneapolis-based department store retailer noted that September same-store sales were up 2.9 percent compared with a year ago. A Minneapolis-area mall manager reported that storeowners considered recent sales soft. Same-store sales at a North Dakota mall were down 7 percent in August and September compared with last year.

Late summer tourism finished down in several parts of the district, while the number of fall travelers is on par with a year ago. Tourism at many areas of the Black Hills of South Dakota this summer was down 10 percent compared with last year, while visits to Glacier and Yellowstone national parks in Montana were down 8 percent and 14 percent respectively in August compared with last year. The number of travelers to northern Wisconsin this fall is about the same as last year, according to a Chamber of

Commerce representative, and the number of visitors to the Duluth, Minn., area was up about 6 percent during September compared with a year ago, according to a tourism official.

Manufacturing

Overall manufacturing activity in the district increased, but some industries showed signs of weakness. A September purchasing manager survey by Creighton University indicated strong manufacturing activity in Minnesota and in the Dakotas. As evidence, a computer component firm with plants in South Dakota, Minnesota and western Wisconsin reported that demand has begun to grow after several quarters of decline. A North Dakota construction equipment maker increased sales from a year earlier due to increased foreign demand. In addition, in Michigan's Upper Peninsula, an automobile and tractor component producer plans to double capacity due to strong demand. A recent St. Cloud State University *Quarterly Business Report* survey indicated that central Minnesota manufacturers increased the workweek from the previous quarter. However, a fiberboard plant in Montana closed due to higher electricity costs. Higher costs and lower prices caused a Minnesota lumber mill to temporarily shut down. Several paper plants in Minnesota, Wisconsin and Michigan have reduced employment and production.

Mining and Energy

The palladium, iron ore and petroleum industries continue to operate at, or near, capacity. Palladium production is at full capacity. In July iron ore consumption was 7 percent above year-ago levels and inventory levels were down 11 percent from a year earlier. District iron ore shipments in August were up 10 percent from a year earlier, and an iron ore industry spokesperson reported that the mines are at full production. However, due to increased costs, lower quality ore and low gold prices, a South Dakota gold mine will close. Meanwhile, district oil exploration and production continue at a strong pace in response to high petroleum prices.

Agriculture

The robust harvest across the Ninth District is almost complete. The U.S. Department of Agriculture forecasts an above-average corn and soybean harvest for most district states. However, due to lack of moisture, the progress of the Montana winter wheat crop is significantly below the five-year average, and hay production in 2000 is expected to be about half of the 1999 production. Farmers and ranchers are also encountering higher

expenses for interest, labor and fuels. However, Congress has enacted emergency legislation to soften these impacts by adding an infusion of government assistance that is likely to surpass 1999 payments by \$2.7 billion nationally, according to the U.S. Department of Agriculture.

Employment, Wages and Prices

Employers still have difficulty filling positions. A Chamber of Commerce survey of businesses in Duluth, Minn., found widespread concerns over worker availability. A task force in Montana found that the state could face a shortfall of between 100 and 300 teachers next year. In Minnesota, about 1,700 nursing jobs are unfilled. In addition, a new door manufacturing plant in northern Wisconsin will create 300 jobs and a telemarketing firm in Bismarck, N.D., plans to hire 50 more workers.

Labor markets remain tight despite layoffs reported by some district companies; most are due to restructuring. A paper company is eliminating 700 jobs in Wisconsin and Minnesota, a Minneapolis area-based direct-marketer is cutting 550 workers, and a Minnesota health care product company plans to eliminate 260 jobs.

Wages continue to rise at a moderate pace. The September St. Cloud State University business survey reveals that 54 percent of respondents expect higher employee compensation at their companies over the next six months. Employees in the lower-wage range are quick to change jobs for modest pay increases, according to a member of the Minneapolis Fed's advisory council on small business, agriculture and labor from Eau Claire, Wis.

Large price increases are reported in energy and employee benefits, while overall price increases remain modest. A Minnesota-based utility said that its natural gas customers could face heating bills that are 35 percent to 50 percent higher than last winter, while Montana Power Co. is seeking a 12 percent increase in electric rates and a 9 percent increase in natural gas rates. Health insurance rates for St. Paul public school teachers are up about 15 percent over last year. Regarding overall price increases, the St. Cloud State University survey shows that 63 percent of respondents reported no change or a decrease in prices received for their products in September compared with three months ago, up from 56 percent of respondents in the June survey.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy expanded modestly in September and early October. Retail sales and manufacturing activity rose slightly, and residential construction edged higher following recent declines. Energy activity also continued to increase, as oil and gas prices remained high. In contrast to these sectors, commercial construction remained flat. In the farm economy, record corn and soybean harvests kept crop prices low. District labor markets remained tight, with wage pressures up slightly from the recent past. Prices continued to rise for some manufacturing materials, but builders reported a decline in lumber prices. Retail prices were generally stable.

Retail Sales. Retailers in the district reported a modest rise in activity from August to September and early October. Most stores also reported a slight increase in sales on a year-over-year basis. Clothing sold well, while sales of home furnishings and most other items were generally weak. Store inventories edged up but most managers were satisfied with current stock levels, as expectations of future retail activity remained strong. Motor vehicle sales were up slightly in September and early October. Dealers were largely successful at managing inventories during the model year changeover, with few reports of difficulties selling 2000 models or obtaining new vehicles. Expectations remain soft for vehicle sales in coming months.

Manufacturing. District factory activity edged up in September and early October, with slightly more firms reporting high levels of capacity utilization than in the summer. Exceptions included several producers of heavy machinery who have seen demand weakened by increases in interest rates and fuel costs. Manufacturing materials were generally available, with lead times largely unchanged. Managers do not foresee difficulties in obtaining materials in the near future.

Inventories were down slightly from the previous survey, but most managers were eager to trim stock levels further.

Real Estate and Construction. Residential construction activity edged higher in September and early October following several months of decline, while commercial building was largely unchanged. Despite the small increase in housing starts, homebuilding remained well below year-ago levels in most areas of the district. Sales of new and existing homes were also flat to down in most areas of the district when compared to a year ago. Most builders expect steady residential construction activity for the rest of the year. Mortgage demand remained weak, with virtually no refinancing activity taking place in September. Most lenders do not expect mortgage demand to change in coming months. Commercial construction activity was mixed across the district, but was flat overall compared with both a month ago and a year ago. Absorption of office space increased slightly and office vacancies declined slightly during the past month. Absorption and vacancy rates both appeared to be about the same as a year ago. A few commercial realtors expressed concern that declines in technology stocks could adversely affect the office market in the future.

Banking. Bankers reported that loans fell and deposits rose over the past month, reducing loan-deposit ratios slightly. Demand edged down for consumer loans, home mortgages, and residential construction loans, outweighing a small increase in home equity loans. On the deposit side, demand deposits, NOW accounts, and money market deposit accounts all increased, while large CDs declined. Almost all respondent banks held their prime lending rates and consumer lending rates steady and do not expect to change those rates in the near term. Lending standards were generally unchanged.

Energy. Energy activity in the district increased in September and early October, as tight

supplies kept oil and natural gas prices high. The count of active oil and gas rigs in the district increased for the eighth consecutive month despite reported difficulties in finding qualified workers. Most of the increase in drilling has been for natural gas. While some new oil exploration is occurring, district producers reported that they are primarily reworking old wells.

Agriculture. The district's fall harvest is almost complete. Record corn and soybean crops are expected, holding down crop prices despite dry weather that hurt crop yields in some areas. The dry weather has also slowed progress in planting the district's winter wheat crop. Low grain prices have trimmed feed costs for district livestock producers, but the high price of young feeder cattle has cut into feedlot profits. District bankers reported that farm loan portfolios are generally in good condition, mainly due to big government payments to grain producers.

Wages and Prices. Labor markets in the Tenth District remained tight in September and early October, with wage pressures up slightly from recent surveys. The greatest shortages of workers appear to be in information technology, manufacturing, oil and gas extraction, trucking, and entry-level retail. The shortage of construction workers reported in previous surveys appears to have eased somewhat due to the slowing in building activity this year. A slightly higher proportion of business contacts reported an increase in wage pressures. There also appeared to be an increase in the use of flexible work schedules to attract and retain workers. Retail prices were stable in September and early October but are expected to edge up in the near future as transportation surcharges pass through. Upward price pressures continued for some manufacturing materials, including steel and plastics, but are expected to ease in coming months. Most manufacturers continued to report that they were unable to pass these cost increases through to customers. Builders reported a decline in lumber prices in September but prices for most other construction materials were unchanged and are expected to remain steady.

ELEVENTH DISTRICT—DALLAS

In late-September and early-October, Eleventh District economic activity was at a high level, but grew at a slower rate than reported in the last Beige Book. Many contacts had become less optimistic about the outlook. Manufacturing activity slowed, retail and auto sales were slower than expected, and there were signs of cooling in the service sector and construction. Energy activity strengthened, however, and construction activity and demand for business services was strong. The financial industry reported no change in loan demand, but activity was slower than a year ago and institutions have increased their lending standards. Recent rains brought much needed water for livestock and improved soil moisture but were too late to help most crops.

Prices. With the exception of energy prices, most prices were reported to be unchanged or lower than six weeks ago. Natural gas price futures hit an all-time high, climbing to \$5.50 per mcf. Strong demand kept crude oil prices high. Inventories for crude oil are 5 percent to 10 percent below last year, and inventories are even lower for oil products and natural gas. For example, heating oil inventories are 35 percent below last year's levels. A number of refineries announced they will continue to operate through the October turnaround period to build heating oil inventories. Glass producers said inventories are slightly too large and growing, but selling prices are up, according to contacts, who say they are passing along higher energy prices.

Many manufacturers reported weaker demand than a few weeks ago and, as a result, prices were falling or expected to fall, despite higher fuel costs. Petrochemical producers said they are still unable to pass on higher production costs to their customers. Excess capacity and slack demand have led to falling prices for key products like ethylene, propylene and polypropylene. Paper producers reported large inventories as a result of slower than expected demand, and many companies have taken extra maintenance downtime to try to prevent overproduction. Prices for paper products remained unchanged, but one contact said that they are "on the verge" of price declines. Cement and concrete inventories are back to normal after shortages earlier in the year. Concrete and cement prices are expected to fall as new

capacity comes online and have “plummeted” in Houston, where imports have increased competitive pressures. Selling prices for lumber and wood products declined; in some areas the price of plywood fell by as much as 25 percent and lumber by as much as 35 percent since their peak. Wood prices are expected to continue to decline because demand has fallen and supplies are high. Retailers said selling prices continued to be mostly unchanged despite some increased cost pressures, such as from transportation and energy. Most contacts say labor markets remain very tight, leading to increased overtime and rising wages. Some contacts, however, reported a loosening in the labor market. For example, in the high tech industry, while the labor market remains tight, the shake-up of Internet-related companies has freed up some high-skilled workers.

Manufacturing. Manufacturing activity slowed since the last Beige Book, and many contacts were gloomier about the outlook than they have been for quite a while. Demand fell for producers of cement, concrete, glass, paper, petrochemicals, primary metals, lumber and other wood products. For most products, contacts said the slow down was greater than the normal seasonal slowing and some were quite concerned. Slower sales of paper products, especially corrugated paper and boxes, led contacts to conclude that retail sales will be slow this Christmas. They said this is usually a busy time of year because demand for paper increases to ship items for Christmas. Petrochemical producers reported very poor margins and said they are likely to shut down marginal capacity. Electronics and electrical machinery manufacturers reported that the level of orders and sales remained strong, but growth declined some. Growth in personal computer sales slowed, and one respondent noted that higher market penetration of PCs would likely mean slower sales growth this Christmas season. Sales of PC-related products and services, such as DSL connections and software are expected to accelerate, however. Demand remained very strong for telecommunications equipment and services although contacts say the industry is very competitive. Telecommunications firms say current technologies can not meet customer demand, and firms are positioning themselves to purchase or merge with other companies to buy technology. Food and apparel manufacturers reported no change in sales. Demand for fabricated metals was strong, according to contacts, who said that high levels of commercial construction and the increase

in the rig count have sustained robust sales. Construction of new wells in West Texas boosted sales of cement. Refiners continued to enjoy good margins, and Gulf Coast refineries have been operating at high levels of capacity, roughly 95 percent.

Services. Demand for business services remained strong but there were some signs of slowing. Temporary firms said business was generally robust, with call centers increasing demand for their services. Legal firms reported signs of slowing, however, with an increase in bankruptcy work and litigation but slower real estate, public finance and IPO activity. Demand for transportation services was strong, and most firms raised prices or instituted fuel surcharges as a result of higher costs.

Retail Sales. Most retailers reported little change in sales growth since the last Beige Book. The level of sales growth was slower than in the first half of the year, and contacts were disappointed that sales had not recovered. As a consequence, all respondents had reduced their outlook for sales for the next six months. Despite slower sales, contacts say that inventory levels are in line with expectations. Auto dealers said sales and showroom traffic cooled in October. Both retailers and auto dealers blame sales weakness in part on increased consumer caution because of stock market volatility. In general Houston area retailers and auto dealers were more optimistic than those in the rest of the state.

Financial Services. The financial industry reported no change in loan demand but said activity has been slower than a year ago. Deposit interest rates increased, and contacts cite the uncertain stock market as having resulted in a shift of consumer funds to depository institutions. Small institutions and credit unions reported better activity than larger banks, which rely on off balance sheet activities to generate a larger proportion of income. Large banks say advisory services are down and merger activities slowed. Competition remains a factor in setting price, but institutions have begun to increase lending standards in response to the need to pay higher interest rates on deposits.

Construction and Real Estate. Construction and real estate activity remained strong in most areas but continued to show signs of cooling. With the exception of the Houston area, where new home sales and starts are up strongly, residential markets are softening. Builders say rising interest rates have put some would-be homebuyers on the sidelines. This has stimulated demand for apartments, and

vacancy rates fell to 20-year lows in some areas. While demand for apartments is high, contacts report that the market is very competitive leading to significant incentives and rent concessions. Nonresidential activity remained at high levels, although some contacts continued to express concern that demand for retail properties could be dropping off. Increased demand for commercial space in the tech-centers has spurred significant price and rent increases.

Energy. Energy activity continued to strengthen with all areas of the drilling and oil service industry improving. The overall rig count was up from 1000 to 1045 over the past 8 weeks despite a decline of about 15 rigs in the Gulf of Mexico because of tropical storms and hurricanes. This is the highest level for the domestic rig count since early 1991. Natural gas continues to account for 80 percent of the drilling. International drilling is also up, boosting demand for services. Contacts say business is good but not stretched to the limit. International drilling is still 100 rigs below its 1998 peak, and there is some reluctance by the major companies to engage in large-scale projects.

Agriculture. Rain replenished soil moisture and available water for livestock. Cotton yields continued to be greatly depressed, however, and in non-irrigated areas the majority of the crop was declared a total loss. The sorghum crop also has been declared a disaster in many areas. Production from irrigated acres was mostly favorable, however. Supplemental feeding of livestock, and some herd reduction continued. Recent rains have come too late in the season to help pasture recovery because winter dormancy has begun. Land preparation for fall planting remained slow.

TWELFTH DISTRICT — SAN FRANCISCO

Summary

Reports from Twelfth District contacts indicate continued solid expansion in most industries in the recent survey period, although there were signs of moderation in some sectors. District retailers reported moderate sales volumes and modest sales growth, while service providers noted continued strong demand for most products. Manufacturers reported solid sales growth overall, boosted by strong demand for a variety of high-tech products. Agricultural producers reported mixed conditions with weak demand and low prices for District farmers and strong demand and firm prices for District ranchers. Commercial and residential real estate markets remained solid in most District states. Throughout the District, employees at all skill levels remained in short supply, creating notable upward pressure on wages. However, apart from fuel and energy, contacts noted that wholesale and retail prices remained stable.

Wages and Prices

Labor markets remain tight in most District states. Contacts reported stiff recruitment competition and high turnover rates for both skilled and unskilled workers. Wages and benefit costs continued to rise. Employers noted that while hiring and recruitment bonuses remain prevalent, recent stock market volatility has tempered the use of stock options by Internet-related firms. As for prices, energy and petroleum-based product prices have increased, affecting input costs for firms in many sectors and raising home heating bills. Reports indicate that the strong exchange value of the dollar and associated import competition continue to keep wholesale and retail prices in check.

Retail Trade and Services

District retailers reported moderate sales volumes and slower sales growth in the recent survey period. Respondents in California, the Pacific Northwest, and the Intermountain states reported flat or slowing grocery store and apparel sales. Transportation strikes reportedly tempered retail sales in some parts of Los Angeles. District contacts reported that merchandise is readily obtainable, with wholesale distributors offering discounts to retailers in order to clear away excess inventories.

Conditions among District service providers remained strong in recent weeks; however, there were signs of slowing among Internet service providers, as concerns about profitability and financing resulted in job cuts and business restructuring, particularly in the Pacific Northwest. Demand for freight transportation remained brisk; in California, port traffic surged with notable increases in shipments to China. In the tourism sector, growth in visitor traffic to Hawaii boosted hotel occupancy rates and room prices. In contrast, in Salt Lake City, hotel occupancy rates continued to decline, due largely to increases in capacity. The addition of capacity among movie theater chains has pushed occupancy rates down and begun to temper profits, despite strong growth in ticket sales.

Manufacturing

District manufacturers reported solid sales, as strong domestic demand for some goods offset weakening demand for other goods. Contacts at aerospace, semiconductor, and pharmaceutical manufacturing firms reported strong sales growth. Electronics producers noted that component costs declined, and apparel manufacturers reported reduced material costs, largely due to declining import prices. Contacts noted that recent weakness in the euro has

reduced European orders for machine tools and equipment produced in the District. Lumber exports from the Pacific Northwest also fell in recent weeks.

Agriculture and Resource-related Industries

Conditions for District agricultural producers were mixed during the most recent survey period. With the exception of cotton, avocados, and some nuts, District producers reported low prices for agricultural commodities and tree crops. In response to declining prices, some California growers have reduced production of annual vegetable crops. In contrast, demand growth and strong prices for cotton have encouraged growers to expand planting acreage. District ranchers reported continued strong demand for beef and firm prices, making the ongoing drought in the Southwest the main constraint on profits. Rising oil prices and a shortage of diesel fuel reportedly have increased packaging and shipping costs in the agriculture sector.

District energy producers reported continued expansion of production; however, material and labor shortages have restrained growth. Contacts reported difficulty obtaining pipe, gas turbines, and access to land. Demand for geologists, engineers, and rig crews is strong, and experienced workers are in short supply.

Real Estate and Construction

The pace of home sales was brisk in most District states during the survey period, although some moderation was reported in the Pacific Northwest. Contacts in California, Washington, Arizona, and Hawaii reported strong home sales and continued price appreciation. Declining inventories of existing homes and apartments have fueled construction in the Intermountain states and Hawaii. Rising home prices in the San Francisco Bay Area reportedly have begun to spill over to surrounding areas; contacts noted a pickup in activity in

residential real estate markets in Sacramento and other parts of California's Central Valley. In the state of Washington, contacts reported that the pace of price appreciation slowed in recent weeks, as declines in the value of employee stock options tempered sales of high-end homes.

Commercial real estate and construction activity remained strong in most District states, with the exception of Oregon. Industrial and office vacancy rates declined throughout California, pushing lease rates up in most areas. Vacancies remain at all time lows in the San Francisco Bay Area and have come down considerably in downtown Los Angeles. While Washington's commercial real estate market remains tight, office vacancy rates reportedly inched up recently, due in part to declining demand from Internet-related firms.

Financial Institutions

District financial institutions continued to report healthy deposit growth, generally good credit quality, but with some tightening of credit conditions for commercial real estate lending. Deposit growth and loan demand remained strong in Washington. Credit quality reportedly improved in Hawaii, while some credit deterioration was noted in Arizona. Contacts in California and Washington noted reduced credit availability for commercial real estate loans.