For use at 2:00 p.m., E.D.T.
Wednesday
September 11, 2002

Summary of Commentary on ______________________

Current Economic Conditions

by Federal Reserve District

September 2002

SUMMARY[1]

District reports suggest that the growth of economic activity has slowed in recent weeks, with a good deal of variation across sectors. Although Atlanta and San Francisco reported modest improvement, most Districts indicated slow and uneven economic growth, with mixed or scattered experiences across sectors of the economy. Boston and Dallas reported little change in the overall level of economic activity.

Retail sales were generally mixed, although seven Districts reported strong sales of home furnishings or appliances. Three Districts attributed slow apparel sales to unseasonably warm weather. Back-to-school supplies were reported to have sold well in three Districts, although another District reported disappointing sales. All Districts noted that retail inventories were at desired levels, with some reporting that inventories are being kept leaner than in the past. Almost all Districts reported an increase in auto sales over 2001 levels, mostly due to aggressive financing and rebate incentives.

On the whole, manufacturing activity was sluggish, with a good deal of variation by industry and region. In particular, some Districts reported weakness in the high-tech and building materials industries, although other Districts reported strength in the auto and steel industries. The strength of the tourism sector varied across the Districts, with six indicating an increase in business and four reporting low or mixed activity. Almost all Districts noted that business travel has remained at a low level.

Most Districts reported little or no gain in employment in July and August, although three noted that the demand for temporary workers has strengthened. In most Districts, the prices of inputs

[1] Prepared at the Federal Reserve Bank of St. Louis and based on information collected before September 3, 2002. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of the Federal Reserve officials.

and final goods increased slightly or remained flat. Despite few signs of pressures on wages, there was widespread concern about the effect that rising health care costs might have on labor costs.

Nearly all Districts reported strong residential sales and construction activity. On the other hand, commercial real estate markets remained weak. Banks in all Districts report strong demand for residential mortgages and refinancing, although business lending continued to be weak across the board. Credit quality was described as good and delinquency rates as either stable or declining.

Drought conditions have been adversely affecting crops and livestock through most of the West and large areas along the East Coast. The experience elsewhere was more mixed, with yields severely reduced in some areas and near-record levels in others. Oil prices have risen while natural gas prices have been largely unchanged. Natural gas inventories are expected to be at record high levels when the heating season begins.

Consumer Spending

The retail sales picture was mixed for the nation as a whole in July and August, with some Districts posting declines in sales and others noting slight gains over 2001 levels. Home furnishings and other home products were strong sellers in Kansas City, Atlanta, St. Louis, Cleveland, and New York. Some Districts noted robust sales of back-to-school items while others have been disappointed with sales so far. San Francisco and Boston reported strong demand for large appliances. Several Districts, including Cleveland, New York, and Philadelphia, noted that warm weather was responsible for sluggish sales of fall apparel; others reported that apparel sold well. All Districts noted that retail inventories are in line with expectations, although a few heard that retailers are maintaining leaner inventories than in the past. Chicago, Dallas, and Boston reported that discount stores have continued to register stronger sales than general merchandisers. While Minneapolis noted that mall traffic was strong in August, other Districts reported a drop-off. Overall, retailers are cautiously optimistic about the fall, expecting sales to be flat or slightly up from their 2001 levels.

Almost all Districts reported an increase in auto sales over 2001 levels, mostly due to the aggressive financing and rebate incentives offered. Inventories are at desired levels for most contacts, although many dealers are clearing out 2002 models to make room for 2003 models. Most Districts report that dealers are optimistic about sales for the next few months.

Manufacturing and Other Business Activity

Reports of manufacturing activity indicate that there was little to no growth in July and August, although Atlanta and St. Louis reported modest improvement. Some industries have struggled with sluggish orders while others have experienced moderate gains. Although several Districts noted that overall orders in the high-tech industry are still weak, demand for semiconductors has continued to improve in Dallas and San Francisco. Boston and Cleveland reported that residential appliance activity was up. While Philadelphia reported strong demand for construction materials, Dallas, Minneapolis, and Atlanta have seen declines in demand for these products. According to contacts in the Chicago, St. Louis, and Cleveland Districts, activity in the steel industry continued to increase. These Districts, along with Atlanta, also saw higher production of automobiles and automobile components. Richmond and Atlanta saw increases in orders and shipments of packing materials. New York reported a mild rebound in manufacturing activity in August after a dip in July, while the Kansas City manufacturing sector saw fewer signs of improvement in July and August. Several reports noted that positive attitudes still prevail, but manufacturers have become less optimistic than they were earlier in 2002.

Reports from the tourism sector were also mixed across Districts. St. Louis, Minneapolis, Atlanta, Kansas City, Chicago, and New York reported an increase in business, while Boston, Philadelphia, San Francisco, and Richmond observed low or mixed overall activity. Most Districts noted that the duration of leisure visits has declined and that visitors are spending less money per trip. Almost all Districts noted that the level of business travel is low, as is demand for air travel, which has been affecting hotel occupancy rates in some areas. Dallas reported that auditing activity was strong, as was the demand for some legal services. The Atlanta District noted that Mississippi gaming activity has been strong. Boston reported that the temporary employment industry and the majority of software and information technology services have seen flat-to-modest increases in sales and revenue this summer. Trucking firms in Maryland and North Carolina reported soft demand.

Labor Markets and Prices

Labor markets in several Districts – Cleveland, Atlanta, Chicago, and Minneapolis – showed little change since the last Beige Book. In New York, hiring remained sluggish, although some signs of a pickup were noted for August. Firms in Kansas City expressed little interest in new hiring as they wait for further signs of improvement in the economy. Many contacts in Chicago indicated a downward trend in the demand for workers in the retail sector while retail payrolls in Boston and Richmond held steady. Manufacturers in Richmond and St. Louis reported little new hiring, although one manufacturing contact in Chicago reported a modest increase between June and July. The majority of manufacturers in Boston expect only small changes in employment for the rest of 2002. The Boston and Richmond markets for temporary employment experienced stronger demand in recent weeks. In Dallas, call centers and light industrial and manufacturing firms have the most need for temporary labor. Overall, wages were reported to be flat, with virtually no reports of upward pressure on wages. Contacts in San Francisco, however, reported an abundant supply of labor and flat-to-slightly elevated wages.

Prices, too, remained unchanged, on average, although Atlanta, Dallas, Kansas City, and Boston reported an increase in steel prices. Prices of inputs and final goods increased slightly or remained flat in most Districts. The prices of building materials were said to be up in Atlanta, although San Francisco and Kansas City reported that these prices remained low in July and August. In almost all Districts there was concern about the rising cost of health insurance, which is leading some businesses to have higher labor costs.

Real Estate and Construction

Despite the weakness in commercial markets, most Districts, except for Dallas and Philadelphia, reported strong residential sales and construction activity. Contacts in Richmond and Cleveland attributed this vigorous activity to a favorable interest rate environment. In the Atlanta District, strong sales in some Florida markets have created a shortage of homes. July saw the highest number of monthly home closings for the Minneapolis-St. Paul area in five years. Existing home sales for July and August picked up in some Chicago markets. Prices for single-family homes in New York and Minneapolis were up in the second quarter from a year earlier, but apartment rents were reported to be lower than a year ago. Philadelphia and Dallas are the only Districts reporting less than robust residential sales. Real estate agents in Philadelphia reported an easing in the rate of sales in both new and existing homes for July and August. Total home sales remained unchanged in Dallas. Homes priced below $150,000 in Dallas continue to sell, but sales for higher-priced homes are slow. In Kansas City, sales and starts were also stronger for entry-level homes than for higher-priced homes.

Commercial real estate markets remained soft in Boston, Philadelphia, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco. Boston, Philadelphia, Minneapolis, and Kansas City noted increased office vacancy rates for portions of their Districts while San Francisco reported unchanged vacancy rates for commercial and industrial space. New York, Richmond, Atlanta, and St. Louis indicated little or no overall change in commercial markets. Commercial construction opportunities slowed in Cleveland, St. Louis, Kansas City, and San Francisco. Commercial realtors and contractors in Kansas City and Boston do not see any signs of improvement in the near future.

Banking and Finance

Bank loan demand was generally mixed. However, Richmond, Atlanta, and Chicago reported a moderate rise and New York, Kansas City, and San Francisco reported an uneven experience. Demand for mortgages and refinancing remained high across the nation, with Richmond noting a marked increase. Contacts in Philadelphia expressed concern about the sustainability of real estate lending in the absence of growth in other sectors. Business lending continued to be weak in all of the reporting Districts. Demand for consumer loans has been strong in Chicago and Atlanta but mixed in New York and Philadelphia.

Delinquency rates were reported to be either stable or declining. However, credit standards have been tightened for commercial and industrial loans. St. Louis noted that such tightening has only occurred for small firms. Credit standards for other loans remained largely unchanged, except in Atlanta, which reported a tightening. Cleveland and Chicago reported no change in the quality of consumer or business loans; Philadelphia, however, noted a mild slippage.

Atlanta noted a surge in the number of borrowers looking to shorten the term of their loans. Cleveland reported increased competition across all lines of lending while San Francisco noted an increase only for low-risk lending.

Agriculture and Natural Resources

Drought conditions across much of the West and portions of the eastern United States have adversely affected both crops and livestock. Although recent rains have improved crop conditions in some areas, hot and dry weather during the middle of the year reduced the corn, soybean, and hay crops in parts of the Richmond, Chicago, Minneapolis, Dallas, and Kansas City Districts. As a result, bankers in the Kansas City District expect crop insurance payments to be a significant source of producers' income this year. Chicago noted that moisture conditions were notably less favorable for crops in Illinois and Indiana than elsewhere in the District, with contacts in central Illinois observing potential corn yields one-third lower than a year ago. In contrast, other portions of the Chicago District expect near-record corn and soybean yields; in addition, San Francisco reported that sales of fruits, vegetables, and nuts were high, spurred in part by strengthened export demand. Prospects for the cotton crop are good in Dallas and St. Louis, and the wheat harvest in Montana is expected to exceed significantly 2001's drought-ravaged crop.

Livestock producers in the Kansas City, Richmond, and Dallas Districts have been providing supplemental feed to livestock due to dry weather and poor pasture conditions. Richmond also indicated instances of hauling water to livestock. Richmond, Dallas, and San Francisco reported that livestock farmers were paring herds, with liquidation under way in some areas of the Dallas District.

Oil producers in the Dallas and Kansas City Districts reported increased oil prices, while natural gas prices, on average, were largely unchanged. Natural gas inventories declined slightly in the Dallas District but are expected to be at record high levels when the heating season begins. Reports from Dallas, Kansas City, and Minneapolis indicate that the count of active oil and gas drilling rigs remained unchanged in July and August. The Dallas District also noted that foreign drilling activity was down slightly but that revenues were up due to the complexity of the projects.

FIRST DISTRICT - BOSTON

The New England economy is moving sideways, on net, with some sectors level to down and others up modestly. Manufacturers report flat revenues; retailers and tourism contacts say business is slow. Commercial real estate markets are depressed in the Boston area and flat elsewhere in the region. Software and IT markets are still "tough." The outlook remains uncertain.

Retail

Most New England retail contacts report sales in the June-August period level or down from a year earlier. A high-end retailer with sales down 20 percent plans to close several stores in the next six to nine months. Tourism contacts continue to report declines in international and long-distance travelers. The number of business travelers in the Boston area was significantly lower than expected, resulting in one of its weakest summers in years. An upbeat report came from a surplus discount store with sales 12 percent above last year's level; they expect to open three additional stores next quarter.

Retail contacts are mostly holding headcounts level, although some are choosing not to fill open positions. Wages are generally steady, but one respondent implemented an increase of 3 percent. Vendor prices and selling prices are mostly flat. New England hotels, restaurants, and tourism companies continue to offer special pricing and package deals. Capital spending remains modest. Many respondents are being cautious, with some scaling back marketing expenses and one putting large-scale IT projects on hold indefinitely.

Overall, contacted retailers have low expectations for the remainder of the year. Many hope the upcoming months will be profitable, but few anticipate growth.

Manufacturing and Related Services

First District manufacturing contacts report that business conditions have been difficult in the third quarter, with revenues largely flat from a year earlier. Manufacturers of consumer goods and nondurable business products tend to indicate that sales were disappointing in the July-August period, compared to trends earlier in the year or to budgets. Manufacturers of commercial and industrial equipment saw only glimmers of improvement, at best, during these months; sales at firms making aircraft parts and equipment used in commercial construction remain on a downward trajectory. The only bright spots mentioned are residential appliances and military equipment.

Selling prices and materials costs are mostly flat to down, and contacts report that they and their customers are bargaining for extended payment terms. Responding firms face ongoing sharp increases in insurance costs and recent increases for steel and plastics. Manufacturers raising their selling prices to cover rising costs say the increases have been less than desired because of competitive pressures.

The majority of manufacturers have reduced employment during the past year and expect to make only minor adjustments in headcounts during the remainder of 2002. Some companies lifted pay freezes or reversed reductions at midyear or have plans to do so in 2003. Where they are occurring, pay increases are typically 2 to 3 percent. Responding companies generally report that capital spending remains modest. Most seem reluctant to spend while the economy remains weak or uncertain. The only exception—a company embarking on the largest initiative in its history—is doing so to save on labor inputs.

Most contacts believe their sales will be fairly flat over the next six to 12 months and that they will face pressure on net income. A couple of capital goods producers indicate that conditions are unlikely to turn around before late 2003 or sometime in 2004.

Temporary Employment

The staffing industry reports modest improvement. Cutbacks in hiring that occurred during the second quarter have subsided. Some contacts report slight growth in the third quarter, usually the strongest quarter in the year. Contacts in Boston and Hartford report signs of recovery after a long period of inactivity. Respondents in Vermont, where labor demand has been weakened by layoffs at IBM, continue to struggle. Certain occupations and industries display pulses of activity, including sub-assembly manufacturing, low- technology consumer goods manufacturing, health care, non-profits, customer service, and office and clerical. By contrast, professional sectors such as information technology, finance, law, and telecommunications remain in the doldrums. One positive sign is that assignment durations are lengthening, in some cases from a few days or weeks to indefinite.

Temp industry profits are depressed as costs for workers' compensation, unemployment insurance, and wages move up while clients maintain downward pressure on bill rates. Both year-round and seasonal labor remain plentiful. Most contacts were overwhelmed with summer job inquiries from students but had few openings for them. Respondents are cautiously optimistic that business will pick up in the fourth quarter; they expect to inch rather than surge forward for the remainder of the year.

Commercial Real Estate

Commercial real estate markets in New England remain sluggish. Contacts report very low activity levels throughout the region, with Greater Boston continuing to trail other major metro areas.

Commercial markets outside of Boston are said to be steady; vacancy and rental rates have been flat. Boston-area contacts report virtually zero demand for additional rental space in either the city or the suburbs. They indicate that rental rates for available space have decreased 15 to 20 percent over the past year, to approximately half of their 2000 levels. Office vacancy rates in the Boston area continue to rise. In addition, companies occupy substantial unutilized space that is not included in the published rates. Respondents anticipate that vacancy rates will rise further in the near future when a number of large leases expire and unutilized and sub-leased space is returned to owners, possibly further depressing rents. At the same time, however, respondents report strong demand to purchase office and apartment buildings, which they suggest is spurred by low interest rates, volatile stock market conditions, and confidence that the space market will eventually recover.

Commercial real estate respondents do not anticipate any major changes during the next six months, provided there is no deterioration in overall economic conditions. Boston-area contacts do not see signs that the market will improve this year.

Software and Information Technology Services

A majority of respondents in the IT and software sector report modest to average growth in sales and revenues over the summer months. By exception, companies producing health care systems and information software report revenue increases of 15 to 18 percent compared to last year, but note that their performance reflects regulations coming into effect in 2003 (the Health Information Protection Act) that will drive hospitals to upgrade the security of their software systems. Contacts in the rest of the IT sector report sales growth of about 2 percent from year-earlier. One respondent, however, notes an unexpected sharp decline in sales in August after a very successful June and July.

Producers of human resources software, custom applications development, and program development tools report either flat or 5 to 10 percent growth in employment. All cite significantly reduced turnover rates, with one company claiming one-quarter of the turnover in the past few years. None of the responding firms plan to cut back their capital budgets. While the contacted companies are generally gaining, their senior executives note that sales and profits of some competitors are down by as much as 20 to 50 percent. Thus, they believe the market for IT and software products is still "tough," with the rebound slower than expected. Most respondents express cautious optimism for growth in the next 12 months, but admit that their outlook has either remained unchanged or been revised down since May.

SECOND DISTRICT – NEW YORK

Economic activity in the Second District has remained sluggish since the last report, except in the housing sector, which continued to show strength. Prices of goods and services generally remain stable. Hiring remains lethargic, though some signs of a pickup were noted in late August. Retail sales were on or below plan in August, though some improvement was noted in the second half of the month. Most retailers describe inventory levels as favorable and report somewhat less discounting than a year ago.

Manufacturers indicate tepid business conditions, with weakness in July followed by a mild rebound in August; business contacts remain optimistic about the near-term outlook, though somewhat less so than in the second quarter. Housing markets have remained strong, with both construction and resale activity described as brisk. Office markets in and around New York City remain slack but have stabilized somewhat. Robust demand for industrial and warehouse space is reported in northern New Jersey. Finally, bankers report a pickup in demand for residential and commercial mortgages but weakening demand for consumer loans; they also report continued tightening in lending standards and stable delinquency rates.

Consumer Spending

Retailers report that sales were on or below plan in August, though the second half of the month was said to be better than the first half. Major chains report that comparable-store sales in the region ranged from an 8 percent decline to a 5 percent gain, compared with a year earlier. Two contacts noted that sales in the year-earlier period were boosted by tax rebates. As in the last report, sales of home furnishings and appliances were said to be relatively strong, while apparel sales were particularly sluggish. Hot weather was seen, by most contacts, as a modest negative factor, hampering sales of Fall seasonal merchandise. In general, most chains say there is less discounting than a year ago, leading to a modest increase in effective selling prices. While one chain reports that it is about to slash prices to clear out excess inventories, other retailers say that inventory levels are favorable, and lower than a year ago.

A major regional discount chain, already in bankruptcy, recently announced that it will liquidate its inventory and close all 85 of its stores in New York and four in northern New Jersey; these stores reportedly employ approximately 5,000 sales associates. Separately, a leading wholesaler of women's apparel reports that the business climate is increasingly difficult, with sales volume and merchandise costs holding steady but declining prices hurting margins and forcing some staff reductions. This contact attributed this to weakening consumer demand for clothing and consolidation in the retail industry.

Regional surveys of consumer confidence gave mixed but generally weak readings in August. According to the Conference Board, confidence in the Middle Atlantic region fell to a cyclical low in August, mainly reflecting a steep drop in consumers' assessment of current conditions. Separately, a survey of New York State residents, conducted by Siena College, indicates that confidence rebounded modestly in August, following a steep decline in July, though it remained at a relatively low level.

Tourism was fairly lively this past summer. Manhattan hotels report that occupancy rates were steady in July and roughly the same as a year earlier, though average room rates were down 10 percent from a year earlier. There were said to be more leisure visitors this year but fewer business travelers. Separately, resort areas north of Albany report that business was relatively good over the summer.

Construction and Real Estate

Housing markets have remained vigorous since the last report, particularly in the New York City area. Homebuilders in northern New Jersey report that demand remained strong during the summer, while a shortage of available land has continued to drive up prices, limit new construction, and lead to long order backlogs. Active-adult communities have seen particularly strong demand and account for an increasing share of new construction. In the New York-New Jersey region more generally, permits to build single-family homes edged up in July and were 9 percent higher than a year earlier. Multi-family permits posted a sturdy gain and were up more than 24 percent from a year earlier; based on the first seven months, 2002 is on track to be the strongest year for apartment construction since 1987. Much of this strength is concentrated in New York City.

Similarly, the resale market across metropolitan New York City continues to be robust. In the second quarter, prices of single-family homes were up 10-15 percent from a year earlier, based on a repeat-sales index, and real estate contacts indicate that this strength appears to have followed through into the third quarter. Sales of Manhattan co-ops and condos are also described as strong, though the rate of price appreciation has been more subdued. A leading appraisal firm reports that August was its busiest month ever, reflecting both a large number of sales transactions and a flood of refinancing activity. Contacts indicate that New York City's apartment rental market has stabilized, but that rents remain considerably lower than a year ago. Rising vacancy rates and falling rents are also reported along northern New Jersey's "Gold Coast", which is across the river from Manhattan.

Commercial real estate markets have been mixed. New York City's office market continued to slacken since the last report, though the pace has moderated noticeably. Availability rates edged up in July, while asking rents were steady in Midtown but continued to decline in Lower Manhattan. Overall, asking rents are down roughly 10 percent from a year ago, though actual contract rents are reported to be down by at least 20 percent. In contrast, northern New Jersey's industrial market has shown signs of strengthening, buoyed by robust demand for warehouse space. Brisk activity at Port Newark and Port Elizabeth is seen as a major force underpinning this market.

Other Business Activity

A major New York City employment agency reports that hiring activity was unusually slow in July and August, though activity picked up in the final week of August. However, this contact reports that businesses are not yet confident enough to hire and that even the market for temps has shown no signs of rebounding. Based on data through late August, initial claims for unemployment insurance have receded in New York City, and were down from a year earlier. However, in the rest of the state, as well as New Jersey, claims continued to run slightly higher than a year earlier.

Recent surveys of purchasing managers and manufacturers suggest a moderate rebound in the manufacturing sector in August. Buffalo-area purchasers report a slight improvement in business conditions in August—while production activity weakened, new orders rebounded following a slump in July. Purchasing managers in the New York City area report widespread strength in the manufacturing sector in August, but continued sluggish conditions in other sectors; they also expressed less optimism about the near-term outlook than in recent months. Purchasers in both areas report little change in input prices. Separately, our latest monthly survey of New York State manufacturers indicates a moderate rebound in business activity in August, following a dip in activity in July, though improvement was a good deal less widespread than in the second quarter. However, respondents remain overwhelmingly optimistic about the near-term business outlook.

Finally, a trucking-industry expert notes that the recently announced bankruptcy of a major national carrier is not expected to have a dramatic effect on the industry overall. This contact notes that, aside from substantial escalation in insurance costs, the industry has not had major problems and that the firm's business and most of its drivers will likely move to other companies.

Financial Developments

In our latest survey of small to medium-sized Second District banks, respondents report mixed demand for loans. Demand increased for both residential and nonresidential mortgages, but continued to weaken for consumer loans, with twice as many bankers reporting weakening as strengthening. Little change was reported in the commercial and industrial segment. Widespread increases were reported in refinancing activity.

On the supply side, bankers continue to report tightening credit standards for commercial and industrial loans and nonresidential mortgages, but little change in credit standards for consumer lending and residential mortgages. Both loan and deposit rates continued to decrease across all categories. Declining rates were particularly widespread on home mortgages. Lenders report stable delinquency rates for all types of loans.

THIRD DISTRICT – PHILADELPHIA

The upward trend in business activity in the Third District that has been building since the beginning of the year appeared to ease in August. Manufacturers reported steady shipments and orders after several months of growth. Retail sales of general merchandise moved down from July to August, although there were scanty year-over-year gains in both months. Auto sales have been steady. Tourism activity fell in July and August after a strong June. Bank loan volumes have edged down, as gains in residential mortgages have been offset by declines in other types of loans. Commercial real estate markets continued to ease. Home sales have slipped since spring, although they continue at a fairly strong pace.

Third District businesses contacted in August have positive outlooks, although many feel that prospects for the immediate future have become more uncertain. A significant number of those surveyed for this report said business and consumer confidence has become more fragile recently. Manufacturers forecast increases in shipments and orders during the next six months, but their capital spending plans are not as strong as they were earlier this year. Retailers expect slight gains in sales this fall, but they are also looking for ways to cut costs in order to maintain profitability. Bankers generally expect overall loan demand to remain flat, unless business confidence improves and firms step up borrowing. Real estate contacts anticipate steady residential sales, but they do not foresee improvement in commercial markets until next year.

MANUFACTURING

Manufacturing activity in the Third District was virtually steady in August. New orders and shipments were flat during the month for around half of the firms contacted, and the number of firms seeing declines from July offset the number posting increases. Conditions were mixed among the region's major manufacturing sectors. Firms that manufacture building materials and components continued to see strong demand for their products. Demand was also strong for industrial plastics. In contrast, primary metals producers, metal fabricating companies, and electrical equipment makers generally reported declining orders. Area manufacturers added slightly to inventories in August, on balance, although half of those contacted for this report said they were maintaining steady inventories. More than three out of four manufacturers in the region indicated that prices for both the inputs they use and the goods they manufacture were steady in May, but the number reporting higher prices for both has increased since spring.

The region's manufacturers forecast improving business conditions over the next six months, although their level of optimism has slipped somewhat since the first half of the year. Half of the firms surveyed in August expect increases in orders and shipments during the next six months, while just under one in 10 anticipate decreases. In line with their positive, but more modest, outlook, area manufacturers' capital spending plans call for increases, on balance, but the number of firms that have scheduled stepped-up expenditures has declined in recent months.

RETAIL

Third District retailers generally reported very slight gains, at best, in sales in August compared to a year ago, and most said sales declined from July. Although the back-to-school shopping period was well underway, many stores reported a falloff in customer traffic and sales during August. Store executives said the hotter than normal weather was damping sales of fall apparel. Slipping consumer confidence was another factor some merchants cited for lackluster sales. Some stores were implementing more aggressive discounts than they had planned in an effort to spur sales. Many stores have initiated cost cutting efforts to preserve profitability in a slow growth environment. Auto sales continued at a fairly strong pace, as manufacturers continued to offer incentives on 2002 models.

Retailers said the outlook was uncertain, but they expect some improvement, especially in apparel sales, once cooler weather takes hold. Auto sales showed no signs of weakening seriously, according to dealers, but price increases and fewer incentives on 2003 models could result in a drop in the sales rate during the fall.

TRAVEL AND TOURISM

The strong start to the vacation season that began in June has faltered. Tourism activity in July and August was below last year's levels in most of the region's major summer recreation venues. Hotel occupancy has generally been off from last year throughout most of the region. Campground attendance has been good, but vacation home rentals have been mixed, with some areas matching last year's occupancy rates, but many falling below. Tourism officials in nearly all parts of the region indicated that day-trip numbers have been matching or exceeding last year's levels, but spending per trip appeared to be down. Less business at resort area restaurants, retail establishments, and amusement parks could lead to the closing of some establishments, according to tourism officials. Amid the overall decline in activity, a few areas reported increased activity compared with a year ago, and attendance at museums and some urban tourist sites has increased compared with last year. Business travel remains at low levels, adversely affecting airline traffic and hotel occupancy in the region.

FINANCE

Outstanding loan volume at Third District banks has been flat to down slightly in recent weeks. Almost all of the banks contacted for this report said business loan totals have edged down as payoffs continue at a steady rate and requests for new loans decline. Several bankers noted some slippage in commercial loan quality recently. Bank lending officers indicated that a growing number of firms across a wide variety of manufacturing and service industries were still experiencing falling revenues and profits. Consumer lending at area banks has been weak. Although a few banks have posted slight gains recently, most of those surveyed in August reported steady or slightly declining consumer loan volume outstanding. In contrast to business and consumer lending, most banks reported continuing strong growth in residential mortgages, for both refinancing and purchases. Strong residential markets have also been boosting bank lending to homebuilders.

Bankers in the Third District expect overall lending to remain flat in the absence of a pickup in commercial and industrial lending, which they say is unlikely until business confidence improves or firms are faced with pressing needs to increase capital spending. Bankers see no signs that mortgage demand is softening, although many express concern that the current pace of real estate activity cannot persist if overall economic growth in the region slows down.

REAL ESTATE AND CONSTRUCTION

Third District commercial real estate markets have continued to ease. The most recent surveys by area real estate firms indicated that vacancy rates have increased 1 to 2 percentage points since spring in most markets. The office vacancy rate in the Philadelphia central business district is estimated at around 14 percent. The vacancy rate in most suburban markets is estimated to be higher, at around 20 percent. Effective rental rates have eased as building owners have expanded capital commitments, such as building improvements and free rent periods, for tenants. Contacts in commercial real estate believe markets will improve slightly, but probably not until some time in 2003, after a number of buildings currently under construction are completed and lease up.

Residential real estate agents generally reported an easing in the rate of sales of both new and existing homes in July and August, although the number of sales in those months was still said to be relatively high by recent standards. Price appreciation remains rapid in many parts of the region. Builders and real estate agents said supply and demand for homes in the region appear to be coming into balance, however. They expect some reduction in the rate of price increases and a steady pace of sales.

FOURTH DISTRICT – CLEVELAND

The Fourth District's economic activity showed mixed signals during July and August. Homebuilding activity remained strong; shipping activity continued to increase; automobile and affiliated manufacturers reported positive conditions, as did home goods manufacturers; and, with one exception, contacts that previously reported they were planning to increase their capital expenditures indicated those plans were still on track.

On the other hand, retail sales faltered during the back-to-school season despite strong performance in June and July; commercial construction continued to struggle; banking conditions remain mixed; and manufacturers outside the auto, automobile component, or home goods industries reported declining conditions.

For the most part, however, contacts are "guardedly" or "hesitantly" optimistic about future economic prospects. Although third-quarter expectations varied, most contacts believe 2002 will see a strong finish. Many continue to worry about consumer confidence amid negative economic and political news, but they appeared less concerned about declining confidence than in the previous report.

Labor markets showed little change since the last report. Most contacts reported a plentiful labor supply, and the few looking to hire reported having no difficulty finding skilled labor. No wage pressures were reported. Contacts again cited health care and pension benefits as a point of contention between unionized labor and employers.

Regarding prices, contacts in the trucking and shipping industry noted that they were gaining the ability to set prices due to increased demand and reduced industry capacity. After leveling off in late May and early June, steel prices have remained stable. Otherwise, contacts reported that July and August prices continued the trends seen during the first half of 2002. Health care prices and insurance premiums continued to rise. Manufacturers continued to note falling input prices. Input prices in commercial construction and remained stable and retailers reported that their prices were steady.

Manufacturing

Despite improving manufacturing conditions through July, contacts indicated the sector faltered in August. In the Cincinnati area, contacts reported the worst industry conditions yet in 2002. Manufacturers that supply the auto industry or create consumer goods for the home reported strong business, but most other manufacturers reported declining conditions and falling new orders. They expect conditions to be weaker in the third quarter than in the second, but expect improvement in the fourth quarter.

Most auto makers in the Fourth District have completed their retooling and plant changeovers and are now producing 2003 models. Aside from scheduled changeovers, no work stoppages were reported at any plant during July and August. Some plants continue to report overtime hours.

Steelmakers reported no change in conditions since last report: Prices, wages, demand, production, and size of the labor force were steady in July and August.

Retail Sales

The optimism among retailers that was seen in the last report appears to have dissipated with slowing sales in July and August. Back-to-school sales have been disappointing, with weakness spread across most product categories. As in the winter and early spring, unseasonably warm weather may be dampening apparel sales. Products associated with homes (furniture and electronics) and jewelry sold well despite the recent downturn in overall sales. For the most part, retailers are maintaining very lean inventory positions and running very few promotions.

Contacts expected sales figures for August 2002 to be 1 percent to 6 percent below August 2001. The two contacts that anticipated a year-over-year increase in August sales suggested the figure will be at the low end of their prior forecasts. Expectations for the year have been downgraded: Retailers expect 2002 sales to be flat or slightly above 2001.

In contrast to general retail reports, automobile retailers reported stronger-than-expected sales in August. Sales were stronger over the summer than at the beginning of the year, and year-to-date sales have shown improvement over 2001. Dealers reported very low inventories (60 days or less) in preparation for the 2003 models that go on the market in September. Provided dealer incentives remain in place, contacts anticipate sales through the rest of 2002.

Construction

District homebuilders continued to report strong sales amid a favorable interest rate environment. Most contacts indicated their sales have been steady and, to date, above last year's totals. Contacts at smaller firms, however, noted that although customer interest and traffic remained high, it was more difficult to convert interest into sales in July and August. Contacts at larger firms indicated they have relied heavily on incentives to convert interested customers into buyers. Nevertheless, homebuilders remain optimistic about the outlook for the rest of the year.

Commercial builders, on the other hand, continued to report unfavorable industry conditions through the survey period. Contacts reported that current economic uncertainties have caused companies to postpone any major building projects. Although companies are inquiring about building projects, they are not willing to begin new projects until the economic environment becomes more stable. The few commercial projects that are expected to proceed soon are drawing considerable competition, not only from firms within the state where the project is located (as is typically the case), but also from firms in other states.

Trucking and Shipping

Although shipping activity showed no increase since the last report, contacts continued to characterize demand as strong. Year-to-date shipping activity is higher than the same period in 2001 and is nearing the average of the past five years. Contacts noted that current demand, combined with a decrease in industry capacity over the last six quarters, has created a favorable price environment: Carriers have been able to raise prices 1 percent to 1.5 percent and make those increases stick. Most price increases are attributed to personnel costs—specifically, rising insurance premiums. Rising diesel prices were noted as a minor concern. Although companies are absorbing part of the increase, contacts noted that they would be able to increase their diesel surcharges to pass the cost onto their customers should that become necessary (as was the case through most of 2001).

A smaller segment of the trucking and shipping industry, less-than-truckload carriers, reported that while they had seen improvement in the industry since the start of the year, the pick-up in their business had not been as strong as in the shipping industry as a whole. As evidenced by the recent bankruptcy of a major carrier, less-than-truckload carriers reported that despite improved conditions in recent quarters, they have had difficulty recovering from earlier financial problems encountered in 2000 and 2001.

Banking

Although most contacts reported no change in their net interest margin, two indicated a slight tightening. An already weak demand for commercial loans appeared to have slipped further over the last six weeks. Reports on the consumer side remained mixed: Roughly half of our contacts reported higher year-over-year demand, while the other half reported decreased demand. Those noting an increase in demand attributed the rise to refinancing and new loan activity.

Most contacts reported little change in the rate of loan delinquencies and the credit quality of applicants—conditions remain much the same as at the beginning of the year. Likewise, bankers report aggressive competition for borrowers across all lines of lending.

FIFTH DISTRICT – RICHMOND

Overview: Outside of continued strength in District housing markets, and a pickup in retail activity in some areas, there were only scattered signs of growth in the Fifth District's economy in July and August. Manufacturing activity was essentially flat; shipments edged lower and new orders were unchanged. Services firms' revenues also were flat, and retail sales growth strengthened in some areas but was sluggish in others. Residential mortgage lending rose as mortgage interest rates continued to trend down, while commercial lending remained weak. District home sales were strong, but with the exception of some pickup in retail leasing, commercial real estate activity was little changed. Price inflation remained modest throughout the District's economy. In agriculture, recent rainfall helped crops, but prolonged hot and dry weather during much of the summer reduced corn and soybean yield prospects and distressed pastures.

Retail: Retailers in the District said sales growth was mixed in the weeks since our last report. In Gastonia, N.C., contacts said layoffs at textile plants had led to weaker sales. In contrast, a large department store with locations throughout the District reported that their business had been up. In Virginia's Tidewater region, a big-box retailer described the pace of sales as unchanged from six weeks ago, and a department store manager there characterized sales as "good." Reports from automobile dealers were mixed, and many were offering manufacturers' price incentives to reduce inventory as they got ready for next year's models. Most District retail businesses were not hiring, but a respondent at an upscale retail firm said it had difficulty finding staff for its planned new store in the Washington, D.C., area.

Services: Services firms generally reported flat revenues in recent weeks. Trucking firms in Maryland and North Carolina reported that demand softened and healthcare systems and hospitals in the Fifth District reported that demand was flat. Restaurants in Charleston, S.C., and around the Chesapeake Bay reported decreased revenues. However, internet services companies in central North Carolina, West Virginia, and suburban Washington, D.C., told us that demand had increased. Several North Carolina firms that assist with business bankruptcies also said they saw stronger demand in manufacturing-dependent regions, suggesting weak economic conditions persist in those areas.

Manufacturing: The pace of District manufacturing activity was sluggish in the weeks since our last report. Shipments edged lower, while new orders and employment were little changed. Capacity utilization edged higher in August after several months of declines. According to our contacts, demand softened further in the chemicals, electronics, furniture, and textiles industries. A North Carolina chemical producer told us that his firms' shipments and new orders declined in August. He said that his company remained cautious about capital spending because there was "no sense as to the direction of the economy." A North Carolina-based furniture manufacturer said that weak demand for higher-priced lines contributed to an 8-percent reduction in new orders at his firm in August. In contrast, a manufacturer of packaging supplies in South Carolina told us that business picked up in August and he expected shipments to be strong during the next six months. In general, District manufacturers reported little new hiring and only modest wage increases since our last report. Prices in the manufacturing sector rose at less than a 1-percent annual rate in August.

Finance: District loan officers reported that lending activity rose at a moderate pace in July and August. Residential mortgage lending picked up appreciably as lower mortgage rates spurred additional refinancing activity. Refinancings accounted for 70 to 80 percent of some bankers' lending in August. A mortgage lender in Charleston, S.C., reported that loan demand had been exceptionally strong in recent weeks but he expected refinancing activity to slow in the fourth quarter. Commercial lending continued to be weak as many businesses remained cautious about taking on more debt in the sluggish economic environment. A banker in Virginia noted a pickup in borrowing by businesses providing security services, but said that overall commercial demand remained generally weak. A Charleston, W.V., banker noted that even though his local economy had been surprisingly resilient, businesses there remained "cautious" about borrowing for expansion.

Real Estate: District residential real estate agents continued to report strong sales in late July and August. A realtor in the Washington, D.C., area said home sales had been "tremendous" in recent weeks. He noted that while the market for higher priced homes had softened somewhat, low- to moderate-priced homes were "absolutely gone" as soon as they came on the market. Likewise, a contact in Maryland said home sales in her area were very strong and a realtor in Virginia Beach, Va., said that the market there was "hot." A homebuilder in the Carolinas described home sales as "skyrocketing," particularly in the Charlotte area. Most realtors cited low mortgage interest rates as the driving force behind the solid sales results. Stock market declines were also said to be a factor—a contact in Virginia Beach commented that some investors "burned" in the stock market were finding a safer investment in real estate.

According to commercial realtors, leasing and construction activity in the Fifth District remained generally flat in recent weeks. Many brokers attributed the market's inertia to seasonal factors—a contact in Washington, D.C., noted that "potential customers were focusing on vacations, not deals." By sector, demand was weak for office and industrial space, but interest in retail space edged higher—a Columbia, S.C., realtor reported that "high-end retail establishments" continued to perform well. Vacancy rates stabilized in the retail sector, but continued to creep up in the office and industrial sectors. Commercial rental rates changed little, but contacts in the Carolinas and Northern Virginia reported the re-emergence of landlord concessions in the office and industrial sectors.

Tourism: Tourist activity was mixed since our last report. Hoteliers at Virginia Beach, Va., and Myrtle Beach, S.C., told us that bookings for the Labor Day weekend were somewhat higher than a year ago. However, a contact on the Outer Banks of North Carolina reported that business was a little softer than during Labor Day weekend last year. She attributed weaker bookings to an inundation of mosquitoes and jellyfish in the area. She also noted that tourists were not dining out as much, reducing revenues at area restaurants. Looking ahead, a respondent in Myrtle Beach expected tourist activity to be somewhat weaker in coming months, in part because of fewer flights into the area as financially strapped airlines trimmed costs.

Temporary Employment: Contacts at temporary employment agencies reported that the demand for workers firmed somewhat in recent weeks. An agent in Raleigh, N.C., reported that a few of his clients were "finally willing to launch new projects" due in part to having somewhat more confidence in the economy. He also reported seeing an increase in direct-placement requests at his agency. A Charlotte, N.C., agent reported stronger demand for workers and the agent expected the economy to improve in coming months. Sales and customer service representatives were the most highly sought after job categories in recent weeks.

Agriculture: Drought conditions persisted in most areas of the Fifth District in July and August. Despite widespread rainfall at the end of August, soaring temperatures and depleted ground moisture reduced potential crop yields—particularly in South Carolina, where over 80 percent of the corn crop and 60 percent of the soybean crop were reported to be in poor condition. Drought-stricken North Carolina continued to suffer and soybean development was delayed there. Pasture conditions continued to decline and farmers in Virginia and West Virginia reported early feeding of hay and hauling water to livestock. In addition, cattle farmers in North Carolina and Virginia were culling their herds to avoid possible feed shortages this fall and winter.

SIXTH DISTRICT – ATLANTA

Summary: Sixth District contacts noted a modest improvement in economic activity in July and August, whereas assessments of future prospects were mixed. Retail sales increased, led by autos and positive back-to-school sales. Housing markets remained strong overall, while commercial real estate markets continued to stabilize. Manufacturing output improved slightly. Contacts reported that leisure travel had returned to healthier levels, but business travel in the region remained weak. Labor market conditions were largely unchanged, while price pressures remained limited to a few areas.

Consumer Spending: Back-to-school activity, strong home sales, and automobile sales supported retail activity in the District. Retailers reported that overall sales growth improved in August after lackluster results during July. Most agreed that back-to-school sales rose modestly compared with last year. Home-related product sales were described as strong while apparel sales were mixed across the region. Most contacts reported that retail inventories were balanced. Aggressive manufacturer incentives boosted District car sales in July and August. However, dealers operating national franchises noted that sales in the region still lagged other markets. Despite the generally positive retail results, August surveys of consumer attitudes in Florida and the Atlanta metro area indicated lower levels of consumer confidence.

Real Estate and Construction: Low mortgage rates continued to fuel robust District housing markets. Most builders and real estate agents reported that home sales and new home construction equaled or exceeded year-ago levels in July. For August, the reports were more mixed but remained positive overall. The strongest reports continued to come from Florida. Home inventories varied across the region, with a shortage of supply reported in some Floridian markets. According to reports, several apartment markets in the District continued to suffer as tenants were finding that low interest rates made home ownership an attractive alternative to renting. Lack luster commercial real estate markets have changed little since our last report. Vacancy rates remain at high levels, but reports continued to surface of small improvements in leasing activity.

Manufacturing: Factory activity improved modestly in July and August, and contacts noted a slightly more optimistic outlook. New military contracts boosted the District's shipbuilding and aircraft industries. Auto parts producers continued to announce expansion plans to service the region's vehicle plants. Production volumes were expected to increase for a pharmaceutical manufacturer, and several glass producers noted that they were operating at full capacity to meet rising demand. One report also noted increasing orders and shipments for packaging materials. Less positively, producers of high-tech equipment continued to pare employment rolls. Higher imported steel prices were reported to be severely affecting some metal fabricators. Carpet production, especially for the commercial building segment, remained in the doldrums and contacts noted that demand was not expected to pickup in the near term.

Tourism and Business Travel: Most reports from the tourism and hospitality sector noted some recent improvement in leisure travel in August. However, more of Florida's visitors were reportedly traveling by car than by air, and the duration of visits has declined. Contacts reported that sluggish European and South American economies cut into international travel to the state, although some reports indicated increasing numbers of visitors from Brazil. Mississippi's gaming industry continued to attract customers reluctant to fly to other destinations. Record revenues for Mississippi Gulf Coast casinos were reported for July. Business travel remained weak. In Atlanta and New Orleans, attendance at some recent large business conventions was substantially below that of a year ago.

Financial: Consumer lending continued to increase moderately while commercial loan demand remained weak. Additionally, bankers remained cautious in approving new commercial lines of credit, and some noted tightening standards for approving consumer loans as well. Lower mortgage interest rates drove up mortgage origination and refinancing activity throughout the District. One contact noted a surge in the number of borrowers looking to shorten the term of their loans. The venture capital sector remained largely inactive.

Labor and Prices: With the exception of vehicle manufacturers, part suppliers, and producers of military equipment, reports continued to indicate that firms were not adding significantly to payrolls in August. However, the pace of layoffs appears to have eased back. Most business contacts continued to report that their focus is on cost cutting, and expansion plans remain on hold as a consequence. But some were optimistic that the hiring environment would improve over the next six months. Prices were mostly unchanged with the notable exception of continued increases in healthcare and insurance costs. Many employers were reportedly passing some of these higher costs on to employees and some were also reducing benefits. Prices for building materials were increasing according to several reports, and import tariffs continued to place upward pressure on prices paid for steel products.

Agriculture: Summer rains improved the agricultural outlook in Florida, Louisiana and Mississippi, but drought conditions remained a problem for farmers in parts of Alabama, Georgia and Tennessee. Stronger cotton and corn prices were benefiting those producers not severely impacted by the drought.

SEVENTH DISTRICT – CHICAGO

Summary. Reports from Seventh District contacts again suggested a slow and uneven expansion in the region's economy. Consumer spending remained sluggish in the District. The residential housing market continued to be strong, while softness persisted in nonresidential construction and real estate markets. Manufacturing conditions varied widely across industries. Overall lending activity increased modestly, as strong household loan demand outweighed soft commercial loan demand. Reports on labor market conditions continued to be mixed. Crop conditions in the Midwest have been highly variable throughout the current growing season, but on average remain substantially less positive than a year ago. Price pressures remained subdued at the retail level and there were no significant reports of upward wage pressures.

Consumer spending. Consumer spending remained sluggish from mid-July through August, according to District contacts. Retailers generally reported that sales were flat, in line with national trends. Discounters again reported better sales results than general merchandisers as consumers remained price conscious. Reports indicated that spending on back-to-school apparel was disappointing so far, and expectations were mixed for the rest of the season. However, back-to-school supplies were said to be selling well, along with food and other consumables. Retail inventories generally were reported to be at desired levels. Looking ahead, a survey of Michigan retailers suggested that merchants expected to order less for the upcoming holiday season than they did last year. One District auto group indicated that regional vehicle sales were reflecting the strength seen in national numbers, in contrast to the relative weakness noted in earlier accounts. Contacts in the casual dining industry again reported that sales were weak, with the Midwest softer than the rest of the nation. One contact observed that diners were still eating out, but spending less per meal and trading down to less expensive restaurants. A contact in Michigan reported that movie and theatre ticket sales continued to be strong, in spite of good weather in the area. Tourism contacts indicated that the number of travelers was relatively high, though consumers were spending less while traveling. Price pressures for most consumer products were generally subdued.

Construction/real estate. Construction and real estate activity continued to exhibit strength on the residential side and softness on the nonresidential side. The housing market remained very strong through the end of August; one contact likened the momentum in the industry to a locomotive, with low interest rates "driving the train." Existing home sales remained robust and even picked up in some markets in July and August. Sales of new homes were again brisk, but growth appeared to be moderating. Realtors and builders reported that the first-time-buyer segment continued to lead the market; both groups also noted a slight recovery at the relatively soft upper-end of the market. Chicago's apartment rental market was reportedly soft, but one contact said that their occupancy rates were improving due in part to more generous concessions. Nonresidential activity remained slow, but contacts suggested that the deterioration was leveling off. Reports suggested that vacancy rates continued to be stable in most commercial segments, although there were reports from the Chicago area of an increase in vacant industrial space. Effective rents remained under downward pressure across commercial segments, and landlords were still offering attractive concessions.

Manufacturing. District manufacturers reported conditions were mixed in July and August. Automakers noted that motor vehicle demand remained solid nationwide, though it was softer than in July. Zero-percent financing offers kept consumer interest high and at least one manufacturer extended the program to the end of September. Light vehicle production continued to increase and one contact said that inventories were "right where we would want them to be." A steel industry contact noted that orders "still look really good" and production continued to increase, while inventories remained within their target range. Steel prices have increased, and import volumes "have backed off a bit," according to this contact. Orders for gypsum wallboard surged in pre-buy activity after the industry announced that price increases would take effect in mid-September, and inventories were low as a result. One contact, however, was skeptical that the price increases would stick. Conditions in heavy equipment markets remained very soft. New orders for heavy trucks were at "deep recessionary" levels, according to one industry analyst, after customers had pulled orders ahead earlier this year due to changes in engine emission regulations. This analyst also said that truck assemblies should drop-off after October once the current supply of old engines has been installed. Toolmakers reported that the industry was still down from a year ago, but things had improved slightly in mid-August; the auto industry has kept replenishing some of their tools, but "the big stuff is down."

Banking/finance. Overall lending activity rose modestly, led by household loan demand. All of the contacted bankers noted an increase in applications for mortgage refinancing, with one contact adding that heavy volume has kept mortgage rates higher than they otherwise would have been. New originations remained strong throughout the District as well. Consumer credit quality was said to be stable with delinquencies and non-accruals flat. Contacts indicated that business loan demand remained soft, but was leveling off. One contact at a large bank noted a very slight increase in their loan base in July, following several months of a downward trend. Business credit quality was generally stable, but there were some mixed reports. One contact noted that fewer loans were past due, but since many companies were not as profitable, they had increased the number of firms on their "problem watch list." A large insurer from the District said that rates charged policyholders continued to climb and underwriting standards were tightened further.

Labor markets. Reports on labor markets continued to be mixed but, on balance, suggested neither improving nor deteriorating conditions. One contact from northern Illinois noted that manufacturing employment increased modestly between June and July, although average hours worked declined. Demand for workers in the retail industry trended downward according to multiple sources. Contacts reported no major layoffs in the District, which led a few to be optimistic for the end of the year. One report, however, noted that most layoffs traditionally occur in the fourth quarter and speculated that tight profit margins could lead this year to be worse than last year. There were no new reports of significant upward pressure in wages, though contacts continued to note that rising health insurance costs were affecting labor costs.

Agriculture. Corn and soybean crop conditions continued to vary considerably across the District as of late August. However, rainfall across much of the Corn Belt during the latter half of August prevented further deterioration in crop conditions. Crops in Illinois and Indiana remained notably less favorable than elsewhere in the District, and contacts in central Illinois observed that corn yields might be down as much as one-third from a year ago. In contrast, contacts in central Iowa expected near record corn and soybean yields. Still, on balance, crops in the major corn and soybean producing states appear markedly less favorable at this stage of the season than was the case a year ago. As a result, crop prices at the farm gate continued to rise. On average, farmland values in the District were up 1 percent in the second quarter, compared to the 3 percent increase in the first quarter.

EIGHTH DISTRICT – ST. LOUIS

Summary

Recovery in the Eighth District continues at a slow pace. Contacts in manufacturing report few new hires, although some firms plan to expand in or relocate to the District. Some contacts report that they are restructuring with few or no layoffs. The services sector shows moderate growth, with increased activity, particularly in tourism. Retail and auto sales in July and August increased slightly over 2001 levels. Sales of new homes have increased in several District locations, but conditions in commercial real estate markets are mixed. In the last three months, demand for commercial and industrial loans has declined, while demand for residential mortgages, consumer loans, and credit cards has remained mostly unchanged. In the agricultural sector, estimates of crop yields for the upcoming harvest are expected to be below year-ago levels throughout most of the District.

Consumer Spending

Retail sales showed flat-to-modest growth in the District in July and August, with one half of contacts reporting a slight increase in sales over 2001 levels. More than one half of the retailers surveyed noted that sales met their expectations, while one third expressed that sales were above what they had expected. Apparel, back-to-school items, and infant furniture sold well, while collectibles and gift items moved more slowly. Almost all contacts report that inventories are at desirable levels. Contacts are optimistic concerning fall sales, with three fourths of those surveyed expecting growth compared with last year, while the rest expect sales to be a little below 2001 levels.

Car dealers in the District report that sales in July and August were up slightly, on average, compared with the same period in 2001. Several contacts note that sales of used and low-end vehicles were accounting for a relatively higher-than-normal percentage of car sales, although the rebates and financing incentives are holding consumers' interest in new automobiles. Overall, most dealers reported desirable inventory levels for all vehicles. One third of the dealers surveyed noted higher rejection rates of financing applications, while the rest saw no change. Three fourths of contacts are optimistic about fall sales, expecting to see growth over last year.

Manufacturing and Other Business Activity

The Eighth District's manufacturing sector continues to experience a slow recovery, on average. While some companies are still reporting cutbacks in capital spending, several of these reports indicate restructuring with few or no layoffs. Orders are up for some manufacturing products, including steel, auto components, and home and business products. Several firms are expanding or relocating to the District, including manufacturers in the plastics, cement, and window and door industries. While some contacts note few new hires to replace vacancies, others report that firms are experiencing difficulty finding skilled workers.

The services sector is showing moderate growth, District wide, although several contacts noted that firms are not planning to add new jobs in the next few months. A few contacts noted increased activity also in tourism and the construction of new hotels and restaurants. Reports from the distribution and logistics sector are mixed. While there has been an increase in ground transportation activity over 2001, air delivery operations are below last year's levels. Advertising revenues are also reported to be up. Contacts in the healthcare sector report that the nursing shortage continues to be a problem.

Real Estate and Construction

Contacts in most of the District's metropolitan areas report a healthy residential real estate market. In Louisville, new-home sales increased in June and July. Year-to-date sales in Little Rock, Memphis, and northern Arkansas have kept pace with 2001 levels. Office space leasing has picked up in northern Arkansas, while retail leasing has slowed. In Memphis and St. Louis, high vacancy and low absorption rates have created a buyers market for office and industrial space. The Memphis market for retail space, however, remains strong, with positive absorption and higher occupancy rates.

Residential construction opportunities have tracked sales, with July monthly and year-to-date building permit levels up in most of the District. Commercial construction opportunities are mixed. Expansions of colleges, churches, and hospitals are driving most of the commercial construction projects in central Kentucky and Arkansas. Contacts in Memphis and St. Louis do not anticipate many new commercial construction projects due to the oversupply of commercial space.

Banking and Finance

A recent survey of senior loan officers at a sample of District banks indicates that, for large firms, credit standards for commercial and industrial (C&I) loans have remained largely unchanged in the last three months, although a slight tightening was reported for small firms. Terms for credit lines and C&I loans, for both large and small firms, also remained largely unchanged. Most contacts reported a moderate decline in the demand for C&I loans due to an increase in internally generated funds by customers and a decrease in capital investment in plant and equipment. Credit standards for commercial real estate loans remained mostly unchanged. Apart from normal seasonal variation, demand for such loans increased moderately. Credit standards and demand for residential mortgages, consumer loans, and credit cards were mostly unchanged, as well. The demand for automobile loans facing banks was reported to have decreased moderately due to zero-interest financing and other incentives provided by dealers and manufacturers.

Agriculture and Natural Resources

An August 1 USDA survey estimated corn yield losses in the District states, with yields in Indiana, Kentucky, and Missouri more than 20 percent below last year. Reports from northeast Kentucky and drought-stressed southern Illinois indicate that some of the corn crop is being cut for silage rather than grain. Soybean yields were estimated to be the same as last year in Arkansas and Mississippi, with losses in the remaining District states ranging from 11 percent to 23 percent. The District's cotton and rice crops, however, remain in good-to-excellent condition and the tobacco crop is in fair-to-good condition. For the upcoming harvest, the USDA survey estimated that District production of corn, soybeans, and cotton was sharply below year-ago levels.

While rainfall in mid-August helped to improve the dry conditions in many locales, the lack of adequate moisture has hampered development of the soybean crop and accelerated the maturation process of the corn crop. As a result, harvesting of the corn crop is under way in the southern regions of the District.

NINTH DISTRICT – MINNEAPOLIS

The Ninth District economy appears to have grown very little from mid-July through August. Agriculture, residential construction and tourism grew. Output was flat, however, in the energy and mining sectors, consumer spending was level, and commercial construction and manufacturing contracted. Over this period, labor markets were mixed, while wages and prices were stable. Significant price increases were noted in insurance and housing.

Construction and Real Estate

Commercial construction was soft. A commercial real estate firm noted that office vacancy rates in Minneapolis-St. Paul have recently increased to 16 percent, not including sublease space. The value of contracts awarded for new construction projects in Minnesota and the Dakotas was higher for roads and bridges, but lower for public and private buildings for the three-month period ending in July compared with last year.

In contrast, home building and real estate activity were solid. District housing units authorized were up 8 percent for the three-month period ending in July compared with a year ago. More home sales were closed in the Minneapolis-St. Paul area in July than in any month during the past five years. Home builders in Grand Forks, N.D., were busier than last year, according to a contractor. However, Minneapolis-St. Paul apartment vacancy rates were twice as high as last year. Furthermore, recent home foreclosures were above last year's levels in the Minneapolis-St. Paul area.

Consumer Spending and Tourism

Overall consumer spending was level with noted increases in car sales and weak other retail sales. A major Minneapolis-based department store retailer reported that overall same-store sales were below plan for the first two weeks of August. A Minnesota-based electronics retailer reported flat sales in July compared with a year ago. Meanwhile, a Helena Branch director reported recent soft retail sales in northwestern Montana.

Mall managers reported that sales were generally weak. In the St. Paul-Minneapolis area two mall managers reported that recent sales were flat to slightly higher than last year. Retail sales were down slightly in July from last year at a North Dakota mall; however, foot traffic in August was strong. A Montana mall manager reported flat sales in July compared with a year ago. However, same-store sales at a South Dakota mall were up 5 percent in July, and were up about 3 percent to 5 percent in August from last year, according to a mall manager.

A Montana car dealer reported record sales for the month of July – 15 percent higher than last year. Recent car sales were robust at dealerships in South Dakota, according to an auto dealers association representative.

Summer tourism activity was strong. July and August tourism activity was up 3 percent to 5 percent compared with a year ago in the Duluth, Minn., area due to active convention business and leisure travel. In northwestern Wisconsin, recent visitor numbers and resort bookings were higher than a year ago. Visits to Mt. Rushmore and state parks in South Dakota were up 8 percent and 5 percent, respectively, in July compared with a year ago. A tourism official in Montana predicted a 1 percent to 2 percent increase for 2002 in nonresident travelers compared with last year. Visits to Yellowstone and Glacier National parks were up from last summer.

Manufacturing

Manufacturing activity was down. An August survey of purchasing managers by Creighton University (Omaha, Neb.) indicated decreased manufacturing activity in Minnesota and North Dakota and increased activity in South Dakota. In Minnesota, a maker of electrical contractor tools announced it will close a manufacturing facility, and a water filtration producer will close a factory by the end of the year. In northwestern Wisconsin, a furniture manufacturer recently abandoned expansion plans, while a veneer plant is currently ramping up production and a new saw mill opened. In South Dakota, a food processor is building a $40 million cheese plant, which is one of the largest one-time private investments in state history.

Energy and Mining

Activity in the energy and mining sectors was unchanged. Mid-August district oil and natural gas exploration and production levels were about even with early July. Meanwhile, August production at a large iron ore mine was about equal with July, according to a company spokesperson. Late August Montana mining output was unchanged from early July, and miners are cautiously optimistic about the future, according to a Montana mining industry spokesperson.

Agriculture

The overall agricultural economy was up, primarily due to stronger crop prices. Late August corn, soybean and wheat futures prices were up 11 percent, 8 percent and 10 percent, respectively, from early July. The U.S. Department of Agriculture (USDA) reported diverse estimates for corn, soybean and small grain output in district states. Minnesota's 2002 corn and soybean crops are anticipated to increase 18 percent and 4 percent from 2001, respectively, while South Dakota's 2002 corn and soybean crops are forecast to decrease 5 percent and 13 percent, respectively. North Dakota oat production is predicted to increase 33 percent in 2002 from 2001. The total Montana 2002 wheat harvest is expected to increase 45 percent over 2001's drought-ravaged crop. However, the drought has moved into South Dakota, causing hay production to be down an estimated 46 percent from last year. The USDA recently announced a feed assistance program to help South Dakota cow-calf operators.

Employment, Wages and Prices

Labor markets were about the same as the previous report with a mix of layoff and expansion announcements. A Minnesota company that installs and services telecommunications systems announced plans to lay off 100 workers. A North Dakota agricultural machine manufacturer recently cut 22 employees. A state agency in Minnesota is cutting over 100 jobs. According to a poll by a staffing company, 23 percent of respondents in Minneapolis-St. Paul plan to expand payrolls during the final quarter of 2002, while 11 percent expect to decrease staffing levels – similar to the same survey taken a year earlier. Recent job vacancies were down 24 percent in the La Crosse, Wis., area from a year ago, according to a Wisconsin study. A state survey revealed that second quarter job vacancies in Minnesota were down 41 percent from a year ago. However, almost 7 percent of nursing jobs in Minnesota were vacant.

Meanwhile, a call center in the Upper Peninsula of Michigan is expected to hire 60 more people. In North Dakota a children's play equipment producer recently announced plans to add 100 new jobs.

Wage increases were moderate. More than half of business leaders in central Minnesota who responded to a recent survey conducted by the *St. Cloud (Minn.) Area Quarterly Business Report* expect wages and compensation to remain level through the end of the year. Wages for field workers in a region that includes Minnesota and Wisconsin were down 5 percent in July compared with last year.

Price increases were also moderate, with significant increases noted in health insurance and home prices. A bank director noted slight increases in overall prices, but significantly increased health insurance costs compared with last year. The median home sale price in the St. Paul-Minneapolis area was up 8.6 percent in July over a year ago.

TENTH DISTRICT – KANSAS CITY

Overview. Growth in the Tenth District economy showed some signs of moderating in late July and August, although business contacts remained generally optimistic about future economic activity. Consumer spending was not quite as strong as earlier in the year, the recovery in manufacturing appeared to lose some momentum, and some commercial real estate markets weakened further. On the positive side, residential construction remained solid, and energy activity held on to previous gains. In the farm economy, corn and soybean crops were in bad condition due to the drought. As in previous surveys, wage and retail price pressures were virtually nonexistent, while prices for some manufacturing materials continued to increase.

Consumer Spending. Retailers in the district reported that sales were flat to slightly lower in late July and August compared with earlier in the summer. On a year-over-year basis, sales were largely unchanged in most places. Among merchandise categories, home furnishings and apparel were strongest, while sporting goods continued to show some weakness. Store managers generally reported that inventory levels were in line with expectations. Nearly all managers remained optimistic about sales in coming months and were preparing to increase stock levels for the fall season. Motor vehicle sales held steady in August after picking up following the reintroduction of financing incentives in July. However, most dealers reported that sales were slightly below year-ago levels. Looking ahead, dealers expect sales to increase modestly with the start of the new model year and will build inventories accordingly. Travel and tourism remained solid in most of the district but slowed in Colorado, where a slump in business travel has held down hotel occupancy rates in Denver and the recent rash of wildfires has reduced out-of-state tourist visits.

Manufacturing. The recovery in district manufacturing activity appeared to pause in late July and August, with factory activity showing fewer signs of improvement than in previous surveys. Production and shipments remained a little below year-ago levels following steady increases during most of the first half of the year. Most firms were operating at moderate levels of capacity, and plant managers said they expected factory activity to increase over the next six months. However, firms continued to show little enthusiasm for new hiring or capital spending, saying they were waiting for further signs of improvement in the overall economy before making any major new commitments.

Real Estate and Construction. Residential real estate activity remained solid in late July and August, but some commercial real estate markets declined further. Single-family construction in most places continued to be above year-ago levels, with starts stronger for entry-level houses than for higher-priced homes. Most builders expect home construction to continue on a steady pace for the remainder of the year and do not expect any significant difficulties in obtaining materials. Home sales remained solid in most of the district in late July and August, although the inventory of unsold homes was up in Denver. Sales were particularly strong for entry-level homes. Most realtors expect a slight slowdown in activity in coming months due to increased caution on the part of buyers. Mortgage lenders reported a sizable increase in demand for home loans, particularly for refinancings. Lenders reported that, compared with the previous survey, more refinancings were for the purpose of taking cash out than for reducing the amount or term of the loan. Mortgage demand is generally expected to remain solid in coming months. Commercial real estate activity in district cities either remained weak or contracted further. Realtors reported that sales and prices of office space declined again in Denver and Tulsa, while vacancy rates continued to edge up in several places. Some "build-to-suit" office projects continued to come online across the district, but speculative building was virtually nonexistent. Commercial realtors expect office conditions to remain weak for the foreseeable future.

Banking. Bankers reported that loans and deposits both held steady since the last survey, leaving loan-deposit ratios unchanged. Demand rose somewhat for home equity loans, edged down for commercial real estate loans, and was generally unchanged in other loan categories. On the deposit side, increases in liquid accounts such as demand deposits and money market deposit accounts were offset by decreases in large CD's and small time deposits. All respondent banks left their prime lending rates unchanged, and most banks also held their consumer lending rates steady. Banks did not report any changes in lending standards.

Energy. Energy activity in the district remained strong in late July and August. The count of active oil and gas drilling rigs in the region held steady after rising earlier in the summer. Oil prices rose and natural gas prices in most of the district were largely unchanged since the last survey. Natural gas prices in Wyoming, however, remained depressed and are expected to stay low until a new pipeline to California is completed next spring. Looking ahead, most district energy contacts expect slow, steady growth in energy demand.

Agriculture. The district's corn and soybean crops were in poor condition due to the drought. As a result, district bankers expect crop insurance payments to be a significant source of income for producers this year. Conditions for winter wheat planting were generally poor because of the lack of moisture, which could result in reduced acreage. Poor pasture conditions have forced many ranchers to buy hay and other feedstuffs sooner than normal and at rising prices. Across the district, corn was being harvested early for forage rather than grain. Some cattle producers were placing young cattle in feedlots earlier than normal and still others have been forced to sell part of their breeding herd. Rural bankers indicated small business activity was sluggish, especially in predominantly agricultural areas.

Wages and Prices. Wage and price pressures were virtually nonexistent across the district in late July and August. Labor markets remained soft, with most employers having no problems finding quality workers. As in previous surveys, labor shortages were reported for only a few select occupations. However, some contacts reported labor negotiations were slightly more difficult than in the recent past, and layoff announcements fell sharply in August after rising steadily in the spring and early summer. Wage pressures remained very subdued across the district, but many contacts expressed concern about the cost of rising health care premiums. Retail prices were largely unchanged from previous surveys and are expected to remain flat in coming months. Some stores, however, reported smaller markdowns than during past summer clearance seasons. Builders reported generally flat materials prices in late July and August. As expected, lumber prices leveled off after rising earlier in the summer, and builders do not expect any significant price increases in the fall. Some manufacturers reported further rises in materials prices, including steel products and petroleum-based chemicals. Many plant managers expect moderate materials price increases to continue through the fall.

ELEVENTH DISTRICT – DALLAS

Overall Eleventh District economic growth appears to have stalled in late July and August. While some sectors, such as high-tech manufacturing and business services, continued to show signs of recovery, other areas, such as construction and construction-related manufacturing, appeared to contract. While most respondents expect the economy to continue to slowly recover, many contacts expressed concern that the recovery is very fragile and that war with Iraq or another major terrorist event could lead to declines in activity. Manufacturing activity was flat or slightly down, and retail sales growth weakened slightly. Construction and real estate activity softened further. Energy activity was flat. There was also little change in financial conditions. Demand for business services continued to show signs of slowly improving, although the airline industry continues to suffer. Rain helped crop and pasture conditions, but drought remains a serious problem in some areas.

Prices and Labor Markets. Price reports were mixed. Reports of rising insurance costs continue to be widespread, and the costs of energy and oil-based products have increased. In most instances, contacts indicated that price competition was preventing these costs from being passed along to selling prices. Steel prices are up nearly 10 percent since June and are expected to continue to rise through the end of the year. Liner board prices are scheduled to increase roughly 4 percent from current levels, pushing up prices for some paper products.

Spot prices of West Texas Intermediate crude oil remained in a range of $26 to $28 per barrel, except for late August when they briefly moved over $30 per barrel. Fears of war with Iraq, falling Iraqi output, and tightening inventories have supported the price of crude oil, with the "war premium" variously estimated at $2 to $6 per barrel. Natural gas prices stayed under $3.00 per million Btu, except when oil prices moved over $30 per barrel in late August. Natural gas inventories have declined slightly but remain 11 percent above their five-year average and are expected to be at record high levels as the heating season begins. Gasoline prices were mostly unchanged. Petrochemical prices continued to rise for polyethylene, polypropylene and polyvinyl chloride, but producers do not expect the upward pressure on chemical prices to continue. Prices of new homes have not declined, but there are more concessions and giveaways. The rising inventory of homes in all price ranges is putting downward pressure on home prices according to some contacts.

Manufacturing. Overall manufacturing activity was flat or down slightly in late July and August. Demand was down for most construction-related materials, such as concrete, lumber and brick. Demand slowed sharply for petrochemical products, led by a drop in demand for ethylene, a fundamental building block. The slowdown has occurred partly because of import competition but mostly because a long period of inventory restocking has ended. Still, the level of petrochemical demand remains quite high, according to contacts.

Sales were unchanged for glass, primary and fabricated metals and food products. Domestic demand for paper products was unchanged, but foreign demand was up, particularly from Europe. Another El Paso apparel plant is scheduled to close in September, because production is moving out of the United States.

Gasoline demand has been strong, and refiners on the Gulf Coast kept output unchanged, with capacity utilization at 93 to 95 percent. Strong imports helped keep inventories about 3 percent above last year's levels.

The high-tech industry continued to slowly improve. There has been a broad-based pickup in the demand for semiconductors, except to supply business computers. Inventories are in good shape and, while semiconductor prices remained soft, there are signs of firming. A manufacturer of cordless phones reported double-digit sales growth. However, there has been little change in the telecommunications industry, and layoffs continue to be reported.

Services. Temporary service firms reported continued slow improvement, although activity remains substantially below the levels of a year ago. Demand for temporary workers is coming mostly from call centers, light industrial firms, and manufacturing. Demand was still weak to supply the telecommunications, IT and energy industries. Although accounting firms reported little change in activity, auditing activity was strong, boosted by newly imposed regulations. Legal firms reported an increase in demand for their services in late July and August, with strength in litigation, bankruptcy, labor, and administrative areas but continued weakness in transactions/acquisitions activity.

Demand for air travel remained at very low levels. Business travel has been particularly weak, and airlines are no longer able to charge a premium to these travelers, slashing revenues. The industry is concerned that business travel may remain weak for some time. Airlines are reorganizing to make more efficient use of capital and labor.

Retail Sales. Dealers said auto sales have been good, as low interest rates and large rebate checks continued to bring buyers to showrooms. More generally, however, retail sales were below expectations in late July and August. Department stores reported poor sales, and discount stores said sales growth was at the lower end of their expectations. Some retailers recently lowered their outlook for sales growth. All contacts say that they are being cautious to keep their inventories in check.

Financial Services. Financial market volatility led to a sharp reduction in market-related activities, while commercial and industrial lending continued to be weak. Mortgage lending—first mortgages and refinancing—was still strong. Loan repayments also remained strong, and deposit growth was stronger than expected. While most contacts reported no change in credit conditions, some mentioned tighter scrutiny in loan committee and longer approval processes, although no significant changes to delinquencies or charge-offs.

Construction and Real Estate. Nonresidential markets are reported to be "difficult" and "terrible." Contacts are particularly concerned about new office space coming on line in downtown Houston, which they say could push up vacancy rates to 25 percent in 2003. Residential activity was mostly unchanged. Homes continued to sell if priced below $150,000, but sales of higher priced homes are slow. Home inventories are high, and some contacts expressed concerned about an excess supply of higher priced homes.

Energy. Energy conditions remained unchanged in July and August with about 335 working rigs in Texas and 850 rigs nationwide. Some producers say that they are still unable to aggressively drill because of weak balance sheets. Others are unwilling to risk the balance sheet because they believe high inventories are a risk to natural gas prices. Service firms say foreign drilling is down slightly but revenues are up because the projects are more complex.

Agriculture. The cotton crop is expected to be 15 percent above last year's harvest. In some areas, producers have been able to get a second cutting of hay, and a surplus of hay supplies has been reported for the first time in several years. Nonetheless, drought remains a problem in some areas, where supplemental feeding of livestock is high and herd liquidation is under way. In Southern New Mexico, some areas are out of water, and herd sizes have been reduced to 40 to 50 percent of normal.

TWELFTH DISTRICT – SAN FRANCISCO

Reports from Twelfth District contacts indicate modest economic growth in late July and August, with substantial variation in conditions across and within sectors. Wage and price increases were limited. Respondents noted solid consumer demand for automobiles and other big-ticket items, but sales of other retail trade and service items generally were flat to down. Orders and sales of most high-tech and other manufacturing products were sluggish, with excess capacity still a concern. In agricultural markets, despite solid overall conditions, some producers struggled with adverse supply factors, while energy markets saw stable supply. Demand for commercial real estate was weak, with rents falling further in some markets, but residential demand remained solid. Financial institutions saw weak demand for business loans, and they tightened credit standards for riskier business loan applicants.

Prices and Wages

District contacts reported little upward pressure on wages and prices in the most recent survey period, except for employer benefit costs. Widespread price discounting was reported at the wholesale and retail level for many consumer products and for high-tech, travel, and professional services. Rising energy prices increased production costs a bit in the agricultural and manufacturing sectors. Contacts indicated abundant labor supply and flat to slightly elevated wages, with substantial willingness on the part of job seekers to accept smaller compensation packages. However, some employers, especially in the high-tech sector, reportedly have resumed paying merit increases after suspending them last year. Increases in the cost of health insurance raised employers' benefit costs noticeably, and recent labor unrest has raised concern for near-term economic activity in the shipping industry, commercial aircraft manufacturing, and Hawaii's lodging sector.

Retail Trade and Services

Retail sales were mixed during the survey period. Contacts reported solid automobile sales and increased sales of large appliances, spurred by favorable financing terms and, for appliances, strong home sales. Sales of smaller retail items were weak in general, falling relative to the previous survey and year-earlier levels. Inventories for retail goods were stable and quite lean, with one respondent noting that the preference for tight inventories among clothing retailers was reinforced by the perception of heightened demand risk that has emerged in the aftermath of September 11.

Conditions also were mixed in the District's service sectors. In Hawaii's tourism sector, weak counts for international visitors were largely offset by strong domestic travel, bringing the sector close to year-earlier performance levels. However, travel demand elsewhere was generally weak, with slight additional deterioration reported for the San Francisco Bay Area; some airlines faced financial difficulties due to weak demand for air travel. Providers of telecommunications services struggled with their bottom lines and implemented further layoffs in some areas. However, demand for health services expanded further, and improved demand and firming prices were noted for broadcast advertising.

Manufacturing

Conditions in the District's manufacturing sector were weak, with mostly flat or slightly declining demand relative to previous survey periods and continued excess capacity. Demand for most high-tech products, such as computers and telecommunications equipment, was sluggish, although respondents noted a small sales pickup and rising capacity utilization for semiconductor producers. Producers of other manufactured products also saw weak conditions in general, with demand for commercial aircraft reduced by ongoing problems in the airline industry.

Agriculture and Resource-related Industries

Demand for most District agricultural and resource products was solid, although some producers faced adverse supply conditions. Yields and sales of fruits, vegetables, and nuts were high, spurred in part by strengthened export demand. However, drought conditions in some areas have restricted the supply and raised the price of various grains; this in turn has spurred ranchers to sell beef cattle earlier than preferred due to increased feed and grazing costs. In addition, fires in Oregon have hampered logging operations there. In the markets for natural gas and electricity, contacts noted that supply conditions are adequate to meet demand and keep prices stable in the near term.

Real Estate and Construction

Reports suggest that commercial real estate markets are at or near bottom, while residential market activity remains at high levels but may have peaked. Vacancy rates on commercial and industrial space were flat or increased at a slower pace than in previous periods. Some of the weakest markets, such as the San Francisco Bay Area, saw further declines in rental rates on commercial space. By contrast, industrial rents reportedly were flat or up slightly in most areas. Commercial construction activity remained at very low levels. On the residential side, sales activity and prices continued at high levels throughout the District, although the momentum for further expansion waned in late July and August. Housing starts declined a bit in some areas, and despite the reduction in inventory, the pace of housing price increases slowed. Construction capacity and materials were readily available, and material costs remained low.

Financial Institutions

Financial institutions experienced mixed credit conditions. Despite amply available credit, business loan demand was weak, and respondents noted heightened competition among lenders for low risk loans in several District markets. At the same time, banks tightened underwriting standards for riskier business borrowers. In contrast to business loans, household loan demand remained strong, due to low interest rates and robust mortgage originations and refinancing activity.