April 23, 2003

Summary of Commentary on Current Economic Conditions by Federal Reserve District

Summary

Prepared at the Federal Reserve Bank of Cleveland and based on information collected before April 15, 2003. 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.

Reports from the twelve Federal Reserve Districts suggested that the pace of economic activity continued to be lackluster during March and the first two weeks of April. Although Richmond observed continued modest growth, reports from Boston, Cleveland, Atlanta, St. Louis, Dallas, and San Francisco characterized economic conditions as still mixed or soft. Since the last Beige Book, New York, Philadelphia, Chicago, Minneapolis, and Kansas City noted that the recent pace of economic activity had been slower than reported earlier. The onset of the war with Iraq appeared to have some effect on sales and spending, although it is too early to ascertain the full effect of the war on both consumer and business confidence.

Reports on consumer spending were generally weak in March, but respondents attributed part of the weakness to poor weather and the onset of war. Contacts also cautioned that year-over-year comparisons of sales for March were difficult because Easter fell in late March last year but falls in the third week of April this year. Optimism remained that the retail environment would improve within the next six months.

Most Districts continued to report weakness in manufacturing, although some pockets of growth were noted in most of the reports. Businesses continued to report a cautious attitude toward spending, and commercial real estate was reported to still be in a slump. In contrast, homebuilding activity remained strong across all Districts. Mortgage lending, buoyed by refinancing activity, remained strong, and a few Districts noted some improvement in commercial loan demand. Agriculture conditions generally improved as rain and snow eased drought conditions in several Districts. Labor markets remained soft, but some Districts noted moderating layoffs or improvements in demand for temporary labor.

Consumer Spending

Overall consumer spending remained subdued in March. Although some of the weakness is attributable to Easter falling later this year, the onset of military action in Iraq and poor weather also had negative effects on March sales figures in most Districts. Atlanta and San Francisco, however, noted that March sales were "near year-ago levels" and "largely stable on net" respectively.

Although retail sales have been sluggish, most Districts indicated that their retailers were not concerned about inventory levels. Cleveland, Atlanta, and Chicago reported heavy discounting or increased promotional environments. The outlook among retailers in Boston, Philadelphia, Cleveland, and St. Louis suggested that at least a slight improvement in conditions would occur in these Districts before the close of 2003.

Reports regarding automobile sales in March were mixed: The Cleveland, Richmond, Chicago, St. Louis, Dallas, and San Francisco auto markets saw some rebound in March after slowing in February. Philadelphia, Atlanta, Minneapolis, and Kansas City, on the other hand, reported faltering auto sales in March, although Minneapolis and Kansas City saw some recovery in auto sales in early April in response to manufacturers' incentives.

Travel and tourism spending strengthened in the Richmond, Minneapolis, and Kansas City Districts, but slowed in the Chicago and San Francisco regions. San Francisco noted that international travel had weakened, due in part to the SARS outbreak in Asia. Dallas observed a decline in air travel due to the onset of the war and the SARS outbreak. Atlanta reported mixed conditions: Although international tourism fell in the District, the decline was offset by a successful spring break season.

Manufacturing

Nine of the twelve Districts reported slowing activity in manufacturing. New York and Dallas reported mixed conditions, and Cleveland reported flat or slightly improving conditions. In general, contacts reported lower levels of production, sales, and new orders.

Still, pockets of improvement in the industry were noted by more than half the Districts in this report. In Boston, companies producing hardware, semiconductors, and machine tools reported an increase in business activity, as did nondurable goods producers in the Cleveland District. Atlanta's defense-related manufacturers reported improving conditions, and the hiring of temporary workers in manufacturing rose slightly. In the St. Louis District, some auto parts producers were planning to expand their facilities. The energy-related sector in Dallas observed strong growth since the last report. Despite declining conditions at the time of the survey, manufacturers in the New York and Philadelphia Districts seemed optimistic that activity would improve somewhat within the next six months.

Construction and Real Estate

Residential real estate activity remained strong while commercial building activity continued to be characterized as sluggish. Most Districts reported high levels of residential building activity and sales. Still, some homebuilders suggested that there was a slight softening in their markets: In the Boston District, sales were being limited by supply, and in New York and Atlanta, demand for higher-end homes had eased.

On the commercial side, weakness in construction activity persisted as none of the Districts reported solid improvements in the industry. Office vacancy rates continued to climb in the New York, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco Districts, and some Districts reported falling rental prices.

Banking and Finance

Home lending activity, fueled mainly by refinancing, remained strong across all Districts, but the Chicago District noted some slowing in mortgage activity. Consumer and commercial lending was generally flat, although some bankers in the Cleveland, Chicago, St. Louis, and San Francisco Districts saw slight increases in commercial loan demand. Several Districts reported growth in deposits, but New York reported a decline. Richmond noted a decline in consumer credit demand as clients were paying down their debts.

Agriculture

Recent precipitation has helped to allay fears of continued drought in the Richmond, Chicago, Kansas City, and Dallas Districts. Farmers in the Kansas City District expected to strengthen their balance sheets if relief from drought conditions continues. Various Districts reported stable or rising commodity prices for items such as sugar cane, vegetables, cattle, cotton, tree fruits, and nuts, but prices for milk remained low. The Atlanta and Chicago Districts reported that higher energy prices have resulted in higher market prices for farming inputs, but in Chicago it did not appear to have a large effect because most farmers had negotiated contracts when input prices were lower.

Labor Markets

Most District reports indicated continued weakness in labor markets, as several Districts noted substantial layoffs in March and early April. Still, some hints of improvement had emerged: Both Cleveland and Kansas City reported fewer plans for staff reductions, while New York, Atlanta, and Dallas reported stronger demand for temporary workers. Several Districts reported a lack of upward pressure on wages, but firms continued to note substantial increases in the costs of health care and insurance.

Prices

Many Districts reported price pressures in specific segments of their economies, and no reports of widespread inflationary pressures were mentioned. In general, energy-related inputs in manufacturing saw substantial price increases in March and early April, but most manufacturers held the prices of their goods steady. Retailers noted heavy discounting and promotions, with notable drops in apparel and electronics prices.

Return to top

First District--Boston

The First District economy lacks forward momentum. Retail contacts report sales below plan in recent months, and manufacturers cite disappointing results in the year to date. However, both residential real estate markets and insurance companies remained strong in the first quarter. When characterizing the outlook, respondents have substituted "significant challenges" for their earlier "cautious optimism."

Retail

Retail contacts in New England report that sales were generally below plan in February, March, and early April. Most respondents indicate that bad weather--rain, snow, and low temperatures--has had a considerable effect on sales, while the ongoing war in Iraq has diverted the attention of prospective customers.

Demand in the travel and tourism sector has reportedly dropped below year-ago levels. Hotel rates in the Boston area have declined dramatically as the slowdown in business travel continues. Home-building supply contacts report sales were as much as 20 percent lower in February than a year earlier and improved little in March. Apparel sales are described as weak, though gift items performed better than other categories. Some decline in same-store sales has been attributed to the shift of the Easter shopping season from March to April. Furniture sales are reportedly flat compared with last year, but contacts report an increase in foot traffic during the past month.

Capital spending budgets are said to be in line or slightly above actual spending in 2002; information technology upgrades account for the largest portion of most budgets. Contacts report that inventories are being carefully managed; however, some are slightly higher than anticipated. Most retail contacts say they are holding employment steady, while some report slight reductions. Vendor prices are mostly stable, and selling prices are reportedly flat to down.

Most retail respondents are cautious about their outlook for the remainder of the year, anticipating only modest improvements. Retail contacts are hopeful that a break in the weather will boost sales in the upcoming months, while many are optimistic that an end to the war in Iraq will reinforce a pick-up in the general economic climate.

Manufacturing and Related Services

Many First District manufacturing contacts express disappointment with first-quarter sales and orders. Business has been down from a year ago or has grown at a slower rate than anticipated across a wide variety of products. A couple of contacts indicate that demand for aircraft parts has plummeted from a year ago, despite higher sales to the Pentagon. Another says that Asian customers are expected to cancel some recent orders in light of the SARS-induced decline in air travel.

Companies producing computer hardware, semiconductor-related equipment, and machine tools say that first-quarter business was up from the depressed levels of a year ago. However, each expresses uncertainty about the sustainability of the recovery. For example, one said sales came in higher in the quarter than normal, as customers hesitated before spending. Another is still taking steps as needed to restore profitability.

Most selling prices remain flat to down. Materials costs remain in check except for petroleum-based products and euro-denominated items. Insurance costs continue to escalate.

Most manufacturing contacts expect their domestic employment to be stable or shrink slightly in coming months. Several are shifting operations overseas, especially to China. Merit pay increases for 2003 are mostly in the 2.5 percent to 3.5 percent range.

Capital budgets for 2003 are mixed, with about half the firms planning increases and the remaining half mostly holding spending flat. Those anticipating higher capital investment cite the need to introduce more efficient Information Technology systems or improve manufacturing processes. A couple of respondents have scrapped some planned capital spending projects in the last several months.

Manufacturers anticipate only a modest, gradual improvement in the business climate in 2003, even if the Iraq war ends soon and successfully. They cite a whole list of obstacles to a quick turnaround--geopolitical uncertainties, SARS, an overhang of airline capacity, stock market weakness, and "the economy."

Residential Real Estate

Residential real estate markets in New England remain very strong. After substantial increases in 2002, prices have either leveled off or have increased at a moderate rate this year, according to contacts. Most respondents continue to complain about lack of inventory. The shortage of supply is especially severe in the lower- to midprice range. In most areas, such houses sell as soon as they are listed and often at or even slightly above their asking prices. Houses in the upper-price range stay on the market longer, but even in that segment, demand exceeds the available inventory and prices have not yet declined. Sales remain robust throughout the region, limited only by the lack of inventory. In Massachusetts, sales in January and February were slightly lower than the same months in 2002, but those were the strongest months on record for the state. Some contacts predict that uncertainty about the war and about local economic conditions may limit potential buyers' offers in the near future, but most expect the market to remain solid, as long as interest rates stay low.

Insurance

Contacts from the insurance industry report strong first-quarter performance but static employment and capital spending levels as confidence in the economy remains fragile. While their own near-term outlook has improved, some firms do not expect the economy to recover until mid-2004.

Respondents cite very strong demand for annuities and fixed-income assets, reflecting consumers' increased aversion to stock market risk. However, results in traditional life insurance are mixed, and pipeline activity for institutional funding agreements has been weak. Property and casualty insurance rates have started to moderate around their January levels, but companies in this market niche still enjoy robust, often double-digit, top-line growth.

Employment remains largely static, with some insurance companies announcing modest additions and others selective cuts from less-efficient areas. Capital budgets remain flat, with little investment in new physical capital beyond necessary upgrades of computer equipment. One of the few companies expanding its capital spending reports a slight upward revision for 2003.

Return to top

Second District--New York

The Second District's economy has slowed further since the last report, though contacts in a variety of sectors largely view this as a war- and weather-related postponement of activity. Despite some scattered price hikes, most contacts report that prices and costs of finished goods are steady or declining. The labor market has weakened further, though there has been a slight pickup in hiring of temporary help. Most retail contacts report that sales were below plan in March, with war and inclement weather cited as major factors. Inventory levels are generally described as manageable, though most contacts report high stocks of warm-weather merchandise. Consumer confidence has shown signs of modest improvement since the war began. Manufacturing activity has been mixed but generally flat since the last report.

Housing, while still characterized as strong, showed signs of softening in February and March, particularly at the high end of the market, though there are scattered reports of a pickup in early April. Office markets across metropolitan New York City weakened in the first quarter, particularly in some of the suburban areas. Finally, bankers report a pickup in demand for home mortgages, steady-to-lower delinquency rates, and further tightening in credit standards for commercial borrowers.

Consumer Spending

Most major retail chains report that sales in the District were below plan in March, with a good part of the weakness attributed to the war and unseasonably cold and wet weather. Comparable store sales for March ranged from flat to down 11 percent from a year earlier, though the later date for Easter this year was seen shifting some sales from March into April. A few contacts did note some improvement in sales in the first ten days of April. Sales of home furnishings held up relatively well, compared with other categories. In fact, the two chains most concentrated in durables for the home reported that sales were on or above plan. However, sales of apparel continued to be sluggish, in terms of unit volume and especially dollar volume.

Both selling prices and merchandise costs are described as flat to down moderately, with particularly sharp price declines for apparel and electronics. Inventories are reported to be at manageable levels. Most contacts report heavy stocks of spring merchandise, but these are expected to sell once warm weather arrives. A number of contacts emphasize that the next two weeks will be critical for sales and inventories.

Regional surveys of consumer confidence showed some signs of stabilizing in March. Siena College's monthly survey of New York State residents showed a modest recovery in confidence in March, with most of the pickup occurring after the war began. Separately, the Conference Board reports that confidence in the Middle Atlantic states--New York, New Jersey, and Pennsylvania--held steady at close to a seven-year low in March, though most of the survey was conducted before the war.

Construction and Real Estate

Residential real estate markets appear to have slowed since the last report. Home construction activity, as measured by housing permits, fell noticeably in the first quarter, hampered by heavy snow accumulations across much of the District. New Jersey homebuilders report that demand for moderately priced homes has remained fairly sturdy, but that the high end of the market has deteriorated further since the last report. Separately, realtors across New York State report that sales of existing single-family homes slowed sharply in January and February--partly reflecting harsh weather--while prices leveled off.

Manhattan's co-op and condo market has weakened somewhat since the last report, particularly at the high end. Overall, selling prices were said to be down roughly 10 percent from a year earlier, with unit volume down 5 percent to 10 percent, though an industry contact notes that early 2002 was an extraordinarily strong period. According to a leading appraisal firm, the inventory of homes on the market is reported to be up about 40 percent from a year ago, with much of this increase concentrated at the high end. More recently, though, a large real estate firm notes that activity has improved somewhat in early April and that there has been a notable pickup in sales in Lower Manhattan.

Office markets across most of metropolitan New York City continued to weaken in the first quarter. Westchester's office vacancy rate, which had remained fairly stable throughout 2002, jumped 2 percentage points to 18.4 percent, its highest level in nearly eight years. Vacancy rates also edged up in Midtown Manhattan, Long Island, and central New Jersey but edged down half a point in Fairfield County. Rates were little changed in Lower Manhattan and northern New Jersey. Within northern New Jersey, urban areas are said to be performing noticeably better than suburban markets. In general, asking rents are down 10 percent to 20 percent from their 2001 peaks, though industry contacts note that actual rents have slid more sharply.

Other Business Activity

A major New York City employment agency indicates that the job market has deteriorated further since the last report, though there have been signs of a modest pickup in hiring temporary workers. Hiring activity at law firms, though still stronger than in other industries, has slowed measurably, while the financial services industry is still shedding jobs. This contact attributes at least some of the current hiring slump to war-related uncertainty. Separately, a contact in the financial sector reports that New York City's securities industry appears to have bottomed out in late 2002, at least in terms of profits, but that employment will not likely bottom out until at least this fall.

The manufacturing sector continued to give mixed signals in March and early April, both in terms of business conditions and price pressures. New York City-area purchasing managers report a rebound in manufacturing-sector conditions in March, after some softening in February, but those in other sectors report further weakening. Respondents in both manufacturing and other sectors continue to report steady input prices. Buffalo-area purchasers report steady business conditions in the manufacturing sector in March, with some acceleration in new orders, but a deceleration in production activity; they also indicate continued upward movement in input prices. Finally, our latest monthly survey of New York State manufacturers, conducted in early April, indicates weakening in general business conditions, but expectations of activity over the next six months have strengthened. Respondents note increased upward pressure on input costs but little change in selling prices.

New York City bus, subway, and commuter-rail fares will be hiked roughly 25 percent, on average, in early May, and there will be more modest increases in some bridge and tunnel tolls. This is expected to boost the metro area Consumer Price Index no more than half a point. Tokens will no longer be accepted on the subway system, after the fare increase.

Financial Developments

Bankers at small to medium-sized Second District banks report a widespread--and partly seasonal--increase in demand for home mortgages, but steady demand for other types of loans. Specifically, 54 percent of bankers indicated higher demand for residential mortgages, compared with only 11 percent reporting lower demand. Bankers also indicated increased refinancing activity. On the supply side, bankers reported tighter credit standards for most types of loans--in particular, commercial and industrial loans and commercial mortgages. No bankers reported an easing of standards in any category. Widespread declines in both loan and deposit rates were reported across all categories. Lenders reported declining delinquency rates for commercial and industrial loans but stable rates across other categories.

Return to top

Third District--Philadelphia

Business conditions in the Third District softened in April. Manufacturers reported declines in shipments and new orders compared with March. Retail sales of general merchandise in early April were running below the rate set in the same period a year ago, and sales of automobiles and light trucks were off as well. Bank lending was edging up, with slight gains in business and residential real estate lending. Business conditions for most of the service firms contacted in the first half of April were virtually flat.

The outlook in the Third District business community is cautious. Manufacturers forecast some increases in shipments and orders during the next six months despite the current weakness, but contacts in other sectors are less optimistic. Retailers have mixed views. Some expect sales to improve soon, but others believe consumers will continue to limit spending. Auto dealers expect a lower sales rate in 2003 compared with 2002. Bankers generally expect business and consumer loan demand to remain slow for the next few months, but they anticipate a decrease in residential real estate lending. Employment agencies forecast very modest increases in hiring in the second quarter, mainly by financial services firms, but they anticipate little change in employment in other sectors.

Manufacturing

Third District manufacturers reported declining orders and shipments in mid-April, in a continuation of the slackening in demand for their products that they noted in March. Most of the firms contacted for this report said the decrease in orders set in before the start of combat in Iraq, although some noted drops in orders after it had begun. Order backlogs continued to shrink in April, and local plants trimmed working hours. Although conditions in the region's manufacturing sector remained weak, some firms that produce lumber and metal products reported rising orders, mainly for goods and materials used in home construction and remodeling. Most area manufacturers indicated that prices for the inputs they use and the goods they manufacture have been steady, although many said they are paying more for gasoline and other fuels and for petroleum-based products.

Despite the persistence of weak conditions, the region's manufacturers forecast better business ahead. Over half of the firms surveyed in April expect increases in orders and shipments during the next six months, and only one in ten anticipate decreases. Area manufacturers' capital spending plans call for increases, on balance, although half of the firms polled in April indicated their capital expenditures will be steady. Few firms were planning major expansions, and several noted that outlays for new equipment in the immediate future will be on an as-needed basis only.

Retail

Third District retailers reported lower store traffic and slower sales in late March and early April compared with the same period a year ago. The decline in sales has affected all lines of merchandise. Store executives said a combination of unseasonably cold weather, deteriorating consumer confidence about the economy, and the war in Iraq has dampened consumer spending.

Looking ahead, store executives have mixed views. Some believe the spring season will bring an upturn in sales once normal weather prevails and the conflict in Iraq subsides, but others are concerned that consumers will continue to limit spending until there are positive signs that the economy is improving. Retailers said they were fully stocked with spring merchandise, but as is usual at this time of year, and they do not anticipate making extensive price reductions unless sales in the weeks ahead fall significantly below their current expectations.

Auto dealers generally indicated that sales were down in April compared with March and with April of last year. Although a few dealers saw some continuing strength in demand for new cars, most said sales have been on the decline and inventories have increased. Some dealers said that sales of large sport utility vehicles have been particularly weak since gasoline prices have risen. Although some manufacturers have stepped up incentives, dealers in the region anticipate sales for the year as a whole will fall as much as 5 percent from last year.

Finance

Outstanding loan volume at Third District banks has barely grown in recent weeks. Bankers generally reported slight gains in business loans and residential real estate lending but virtually no growth in consumer lending. Bankers noted that business firms and individuals have been very cautious about adding to their indebtedness. Bank lending officers generally reported that commercial loan quality has been steady, although some said they have become concerned about the financial conditions of some commercial real estate owners.

Investment companies indicated that cash inflow in the past few months has been running significantly below the pace during the same period a year ago. Individual investors continue to prefer bonds to equities, and they appear to be favoring savings accounts over money market funds due to the higher rates available from depository institutions.

Bankers in the Third District generally expect lending to businesses and individuals to grow very slowly in the near term, and they anticipate a decline in residential real estate lending along with lower home sales this year compared with last year. Investment companies expect continued reluctance by individual investors to increase the amount of their investments in stocks, but they believe institutional investors might step up their equity investing later this year.

Services

Most of the service firms contacted in April reported little change in activity in recent weeks. Demand for information technology services has increased somewhat, mainly from government agencies, according to contacts in this industry, while demand from the commercial sector has been flat. Other types of business services firms generally indicated that they have had little or no growth in activity.

Employment agencies in the region reported that hiring plans among their client firms call for some increases in the second quarter but not strong gains. The best prospects for increased employment are among financial services firms, according to employment agencies, while most other sectors are expected to see little change in employment.

Return to top

Fourth District--Cleveland

Economic growth remained subdued in the Fourth District during March and the first two weeks of April, and reports regarding economic conditions remained mixed. Although activity in commercial construction and steel manufacturing remained weak, the tone of reports from our contacts in other industries was generally more positive than it has been in the last three reports. For those contacts who reported increasing economic activity, most characterized improvements as "slight" or "small." Stories of deteriorating conditions were significantly fewer in number; many of the contacts who had noted weakening conditions in the last report saw moderating conditions in this one.

Very few firms reported any noticeable change in their business due to the onset of military action in Iraq. Retailers noticed a slowdown in traffic only during the first few days of the conflict.

The outlook of contacts in our District seems to be improving slowly. With the exception of steel manufacturers and a few durable goods manufacturers, none of our contacts expect conditions to deteriorate further. Most contacts expect conditions to improve somewhat in the next six months.

The labor supply in the District is plentiful, and no firms reported difficulty in hiring for open positions. Significantly fewer firms noted plans to reduce their labor forces. Several contacts reported continued increases in labor costs due to health care and other benefits.

Manufacturing

Most manufacturers noted that production and sales in March were flat or slightly improving on both a monthly and year-over-year basis. Finished goods inventories have fallen across the industry, and the level of idle capacity appears to have decreased from the last report.

In general, growth was stronger in the nondurable goods sector than it was in the durable goods sector. Nondurable goods producers reported steady or increasing employment as well as significant overtime at their plants. Some contacts attempted price increases for their products that appear to have stuck. The outlook among our nondurable goods contacts was positive: most anticipate an increase in both sales and production in the near future.

Durable goods manufacturers reported some layoffs and staff reductions, as well as shortened overtime schedules. Some durable goods producers attempted to raise the prices of their products over the last two months, while others reduced theirs. These price changes have remained intact. Most durable goods manufacturers expect conditions to remain flat in the near future, but some expect increased sales and production during the latter half of 2003.

Monthly production at every automobile plant in the District increased in March, but the level of overall production in the District was down slightly compared with one year ago, even after adjusting for models that were discontinued. One plant closed for the first time in two years because of slower-than-anticipated demand for the model it produces.

Demand for steel remained weak in March and early April, with production and sales equal to or slightly lower than February levels. While most firms anticipate conditions will remain flat in April, a few contacts voiced strong concerns about weak levels of new orders and feared further deterioration in conditions. Excess capacity ranges from 8 percent to 60 percent in the industry, and most firms reported inventories above desired levels. Prices have stabilized at low levels. Several firms tried to implement a 5 percent increase in their prices to cover rising production costs over the last few months, but the price increases failed to stick.

Retail Sales

Several retailers characterized the retail environment as soft in March but cautioned that several factors, including bad weather, the war with Iraq, and the "Easter shift" (in 2002, the Easter buying season fell entirely in March, but this year it falls mostly in April), make year-over-year comparisons difficult. Most said that they would be examining combined sales for the months of March and April to determine the health of their industry this spring. Most nondiscount firms reported comparable store sales roughly 3 percent to 7 percent below March 2002 levels, while discount retailers reported flat or slightly increasing sales. Still, discount retailers expect combined sales from March and April to be higher than one year ago.

In general, some contacts noted an increase in current and anticipated sales promotions, and some noted inventory levels that were rising or higher than they had hoped. Contacts mentioned, however, that they expect to be able to manage inventories to lower levels in the coming months. Most contacts expect sales during the first half of 2003 to be very near the levels of the first half of 2002.

Automobile dealers in the District suggested conditions had improved somewhat since January and February, when sales were poor. One contact characterized March sales as "almost robust." Inventories fell again in March, and contacts reported inventories ranging from 64 days to 85 days. Although a sixty-day supply is preferable, most dealers felt their inventory levels were manageable. Automakers offered additional incentives in March and April, which, dealers noted, play a big role in this market. Contacts are optimistic that summer weather and new models would bolster sales in the near term.

Construction

District homebuilders continued to report steady sales, at levels roughly 3 percent to 5 percent higher than a year ago. Although severe weather resulted in some slowing in sales and customer traffic in January and February, contacts reported that March sales and traffic were significantly higher, and quarterly sales were above most firms' projections.

Commercial builders, in contrast, continued to report poor business conditions. Some contacts reported that conditions have remained depressed since the start of 2002, and others reported that business was down as much as 20 percent year-over-year in March. Some contacts in commercial construction, however, seem slightly optimistic about the prospect of improving conditions. One noted that architects are now busy, which suggests commercial construction will pick up before the close of 2003.

Trucking and Shipping

The trucking and shipping industry recovered from the seasonal slowing it experienced in January and February, and contacts reported that activity during March and the first two weeks of April increased slightly compared with the same period a year ago.

Contacts reported fewer bankruptcies in the industry than one year ago. Some carriers have even begun to see some improvement in profits from the price increases they implemented at the end of 2002. Although some contacts had feared downward price pressures would emerge during late February and March, they did not materialize, and prices charged by shippers have remained fairly constant since the start of the year. Outside of seasonal factors, most contacts expect business conditions will remain favorable in the near future.

Banking

Banking contacts noted slightly improved conditions. Some contacts reported a year-over-year increase in the demand for commercial loans, a market that has been unequivocally characterized as weak in the District for more than a year. Consumer loan conditions remained relatively stable: Reports on consumer loan demand continued to range from slightly up to slightly down compared with one year ago.

A few contacts noted some improvement in the creditworthiness of applicants. Most bankers reported that growth in core deposits was either flat or slightly up; credit standards and the number of loan applications had not changed; and mortgage, installment, and business loan delinquencies were down or flat compared with a year ago. Despite some signs of improvement in the industry, however, competition for borrowers was still intense and the squeeze on spreads continued as loan rates adjusted downward and funding rates remained relatively constant.

Return to top

Fifth District--Richmond

Economic growth in the Fifth District continued to be modest in March and early April as inclement weather and uncertainty about the economy and the war in Iraq constrained consumer demand. Services businesses reported generally flat revenues and little change in employment. But retailers said that harsh weather and the war in Iraq decreased customer traffic and lowered sales substantially. District manufacturing activity contracted in March, and manufacturers told us that their hiring and capital investment plans were generally on hold until the economy improves. In real estate, District home sales rose at a robust pace, but commercial leasing and construction was generally flat. In agriculture, excessive rainfall delayed field preparation and crop planting activity in many areas. Price inflation remained modest in most sectors of the District's economy.

Retail

District retailers reported that inclement weather and customers' concerns regarding the war in Iraq contributed to generally lower sales in recent weeks. An Annapolis, Maryland, department store manager said the area was "hammered with snow" in March, leading his store to sharply discount prices to move out seasonal items. A contact at a building supply chain in the District cited poor weather for lower revenues at his store. A central North Carolina bookseller told us sales have dropped since the war in Iraq began but that she has added to her inventory of war-related and social sciences materials in an effort to boost business. On a brighter note, automobile dealers in Martinsburg and Charleston, West Virginia, reported increased sales due in part to manufacturers' incentives. One dealer said, however, that more people have been buying smaller cars since the war began.

Services

District services businesses reported that customer demand was generally flat to slightly higher in March and early April. A contact at a truck rental firm in West Virginia said revenues had fallen, but other contacts at firms in Washington, D.C., and North Carolina reported stable demand. Hospitals and health-care systems throughout the District reported generally unchanged demand for services. Business-to-business services firms also reported little change in demand for services. Fitness centers in Charlotte, North Carolina, and Washington, D.C., said people were deferring signing up for summer camp and other programs while the war in Iraq continued. Most contacts said they were not adding new employees but were replacing workers who had left.

Manufacturing

District manufacturing activity contracted slightly in March. Shipments edged lower and new orders continued to fall, particularly in the food, furniture, and fabricated metal industries. Factory managers indicated that war uncertainty was one factor in limiting customer demand, but they attributed much of the softness in demand to a continued weak economy. A furniture manufacturer in North Carolina told us that sales of both residential and office furniture in March were the slowest since 1982. Several fabricated metal producers said that weak demand and strong price competition were squeezing their profits. In addition, numerous manufacturing contacts indicated that prices of raw materials had increased substantially since our last report. They attributed the increase primarily to higher energy prices and noted that they were unable to pass higher costs on to customers. District manufacturers continued to trim their payrolls, and some tell us that they will not increase hiring or undertake substantial capital investment until the sluggish economy improves.

Finance

District loan officers said that stronger demand for residential mortgage loans drove overall bank lending higher in recent weeks. A lender in Greenville, South Carolina, said that mortgage applications were "going through the roof" and that his staff was struggling to process the heavy volume. A mortgage lender in Charlottesville, Virginia, also reported robust demand for residential mortgages, which he attributed to improved consumer confidence. Commercial lending remained sluggish; several bankers noted that their clients continued to delay expansion because of the economic uncertainty caused by the war in Iraq. A commercial banker in Richmond said that credit needs had declined and that a number of her clients were paying down debt. Several commercial lenders told us that they had increasing marketing efforts to solicit loans.

Real Estate

Residential real estate agents reported stronger growth in home sales since our last report. A Richmond realtor said that sales were "great," noting that his office posted record sales in March. A realtor in Fredericksburg, Virginia, said that home sales over the last two months had been exceptionally strong; in her words the brisk activity was "wonderful, but exhausting." Agents in Asheville and Greensboro, North Carolina, also reported solid housing markets. There was some slowing of home sales in West Virginia, however; agents in Parkersburg and Charleston told us markets there had slumped.

Commercial realtors reported generally flat leasing and construction activity in recent weeks as international political developments continued to create considerable uncertainty among clients. "Things are pretty much the same, just waiting around for some good news," noted a realtor in Baltimore. Rent levels were down sharply in all commercial sectors. Vacancy rates for office and retail space held steady, but industrial vacancy rates edged higher. The leasing of retail space in Richmond continued to be "very strong for the short and long term," but leasing activity in other commercial sectors remained sluggish. A realtor in Washington, D.C., said companies were "tightening up" and eliminating unnecessary office space.

Tourism

Tourist activity strengthened somewhat in March and early April. Contacts at mountain resorts in Virginia and West Virginia told us cold weather and substantial snowfall helped make this year's ski season the best in recent memory. Coastal tourism, however, was mixed. A respondent from the Outer Banks of North Carolina said that hotel bookings were high, in part because of events celebrating the centennial of the Wright Brothers first flight. But contacts in Myrtle Beach, South Carolina, and Virginia Beach, Virginia, told us that wet weather had caused some trip cancellations. Despite cold weather and concerns about the war, attendance at the National Cherry Blossom Festival in Washington, D.C., nearly matched last year's approximately 1 million people.

Temporary Employment

Temporary employment agencies in the District reported somewhat stronger demand for workers in recent weeks. A contact in Charlotte, North Carolina, said improved economic conditions there had created more demand for workers in automotive industries, and that the mortgage industry was "booming." An agent in Raleigh, North Carolina, said increased confidence in economic recovery and the decisions of several firms to expand sales forces had resulted in a greater need for her services. However, a Cary, North Carolina, agent reported that the demand for workers was somewhat weaker and noted that her agency was expanding its marketing efforts to solicit business.

Agriculture

Excessive rainfall in recent weeks improved soil moisture, replenished ponds, streams, and reservoirs, and ended the persistent drought in South Carolina. The wet weather, however, delayed spring planting activity in most areas of the District. The planting of cucumbers and cantaloupes in Maryland, corn in South Carolina and West Virginia, and small grains in Virginia was behind schedule. A late March snowfall damaged some peach trees in North Carolina and sent some West Virginia farmers scrambling for hay to feed livestock. Pastures were reported to be in good condition in most areas of the District.

Return to top

Sixth District--Atlanta

According to contacts, economic activity remained sluggish in most sectors during February and March. Labor market conditions were largely unchanged in March compared with February, with firms reluctant to hire new full-time workers. Retail sales continued to be around last year's level, whereas auto sales slipped below their year-earlier pace. The District's travel industry had a mixed report, with domestic travel increasing but fewer international visitors. Although home sales continued to be strong, market imbalances persisted in the commercial sector. Weakness in most manufacturing industries continued, with the strongest reports coming from defense contractors. Higher oil and natural gas prices negatively affected most sectors of the District's economy.

Consumer Spending

Reports from retail contacts suggested that retail sales in March were near year-ago levels, although several contacts reported lower sales caused by the late Easter holiday. Some retailers also noted that while sales declined at the outset of the war in Iraq, they rebounded relatively quickly. A number of merchants engaged in aggressive discounting and promotional activity, whereas discount retailers indicated that their performance remained relatively strong. Most retail contacts reported that inventories were balanced and anticipate that sales in the second quarter will be near last year's level. According to domestic automobile industry contacts, new vehicle sales were below year-ago levels in March, reversing gains posted earlier in the year. Some dealers reported weak SUV and high-performance car sales to lower consumer expectations and higher fuel prices. Import dealers continued to gain market share in the District.

Construction

District housing markets were still being driven by low mortgage rates in February and March. Most contacts reported that home sales during February mirrored year-ago levels, but the responses were more varied during March, with some areas reporting a softening in market conditions. High-end homes remained difficult to sell in most parts of the District. Wet weather hampered construction in some parts of the region. Most metropolitan commercial real estate markets continued to suffer from an excess of office and industrial space. Government-related work continued; however, some new projects have been scaled back or postponed because of tight state government finances.

Manufacturing

The manufacturing sector remained sluggish in February and March, with the main exception being defense-related production. Reports indicated that overall hiring and investment spending by manufacturers was down from a year earlier, and some apparel and electrical equipment manufacturers were cutting production in response to lower orders. Nonetheless, some reports suggested there had been a modest pickup in the use of temporary workers in the light industrial sector. Shipbuilders along the Gulf Coast reported a large backlog of military orders. Also, the new auto plant projects and expansions in the District were proceeding on schedule.

Tourism and Business Travel

Reports from the District's hospitality and tourism sector were mixed in February and March. Reports from south Florida indicated a successful spring break season helped offset continued weakness in international travel. Hotel occupancy rates were up from 2002 levels but still lagged those of 2001. Significant discounting and late bookings remained the norm in the cruise industry, and some central Florida tourist attractions continued to struggle with lower attendance. Gaming industry contacts along the Gulf Coast reported that they were maintaining a "reasonable customer flow," whereas smaller-than-expected crowds attended Mardi Gras in New Orleans this year.

Financial

Responses from the banking sector were mostly positive in February and March. Bankers reported moderate deposit growth, and refinancing activity remained strong. However, commercial lending remained slow, and venture capital deals were infrequent. A major concern among banking contacts was the lack of loan demand in the business sector. By most accounts, bank asset quality remained under control.

Wages and Prices

Hiring remained slow in February and March as most firms remained reluctant to commit to adding full-time employees. Instead, businesses continued to stretch existing labor pools, using part-time workers and overtime when necessary. Reports indicated little change in most output prices but increases in prices for several inputs. High natural gas prices in March caused several chemical and fertilizer producers to suspend operations, while higher diesel costs adversely affected transportation firms. According to reports, prices for the petroleum-based products such as roofing, fertilizer, and PVC increased.

Agriculture

District farmers enjoyed mostly favorable early spring weather. With a few exceptions, crop and livestock pasture areas were reported in good condition. Favorable yields and stable prices were welcome news for Florida's sugar cane and vegetable growers. However, grapefruit growers in Florida reported lower prices, and industry contacts suggested that producers in the Indian River region are likely to register a loss this year. Meanwhile, higher fuel and fertilizer prices significantly increased operating costs for farmers throughout the District.

Return to top

Seventh District--Chicago

After a modest but abrupt slowdown in late February, economic activity in the Seventh District showed few signs of improvement in March and early April. Many contacts suggested that the February slowdown resulted from heightened uncertainty preceding the war with Iraq. The war itself appeared to have only a limited impact on economic activity and had yet done little to change the overall level of uncertainty in the economy. Auto dealers, some other retailers, and realtors noted that customer traffic slowed in the first few days of the war but quickly rebounded. Manufacturers and bankers said that the war was perhaps the latest reason that many businesses continued to put off capital spending, hiring, and/or borrowing. Progress in the war helped bring down oil prices, though many businesses were still struggling with higher input costs and very little pricing power. Although drought worries have waned, agricultural concerns lingered as farmers' cash flows were hampered by delayed government payments, and dairy operations struggled with low milk prices.

Consumer Spending

Overall consumer spending was weak in March and early April. Retailers indicated that sales results in March generally met their conservative expectations, although they continued to use heavy discounting to move merchandise. Inventories were said to be in line with sales, as merchants remained vigilant in controlling stocks. District auto dealers reported that light vehicle sales improved in March from low February levels and were a little better than expected given the war. However, showroom traffic slowed in early April despite a new round of manufacturers' incentives. Light vehicle inventories were generally high, and most dealers reported that they were ordering fewer units from manufacturers. Tourism-related activities were flat to down in most areas, although one contact indicated that hotel occupancy rates in Chicago were up from a year earlier. One major theater chain noted that ticket sales were off about 10 percent from year-ago levels, which this contact said was "partly a product-driven decline."

Business Spending

Businesses across the region remained very cautious about their spending and hiring plans. Most contacts indicated that there has been no change in economic conditions that would warrant an increase in capital expenditures and many continued to delay planned upgrades and expansions. However, some businesses were "sitting on cash," which one contact said could boost capital spending quickly once aggregate demand picks up. The hiring environment remained very weak in most areas as well. Though the majority of business contacts suggested that payrolls were relatively unchanged in recent weeks, reports of layoffs continued to outnumber reports of new permanent hires. Demand for temporary help also remained very weak, although one large staffing services firm said that year-over-year growth rates had stabilized in March after several months of steady declines. With margins being squeezed by increasing cost pressures and a lack of pricing power, businesses from across the region continued to focus on cutting costs as a means to improve profits.

Construction and Real Estate

Overall conditions in real estate and construction softened slightly since our last report. Realtors said that existing home sales were still strong but may have leveled off in recent months, while builders suggested that sales and construction of new homes slowed somewhat in March. However, some of the slowdown was weather related as very cold temperatures in much of the District made it difficult for builders to break ground. One

builders group also suggested that potential homebuyers were rushing to lock in historically low mortgage interest rates before they begin to rise, a trend that favored existing and nearly complete spec homes. Nonresidential real estate activity was stagnant in most of the District. Demand for office space remained very weak, and most contacts suggested that vacancy rates continued to rise, albeit slightly. Commercial realtors in a few areas noted some increase in leasing activity, but it was driven by lease renewals and "tenants shuffling around," rather than new demand. However, one contact in the Chicago area reported a sharp increase in the number of office property tours compared with a year ago, though this had not yet led to any net absorption. As a result of continuing weak demand, most contacts have again pushed back their forecasts for a recovery in the office markets. There was little change in light industrial or retail activity, but there were a few reports of a pickup in demand for large-scale projects in the health-care, pharmaceutical, and federal government sectors.

Manufacturing
Manufacturing activity in the District softened slightly in late February and March, partly due to slower auto production. Nationwide light vehicle sales rebounded modestly in March, from February's low levels. However, inventories remained high, and second-quarter light vehicle production plans were down from both first-quarter and year-ago levels. Demand for heavy equipment was still soft in most segments, although a weaker dollar helped boost demand according to one producer. While conditions in the heavy truck industry generally remained weak, a manufacturer of heavy truck engines noted that demand firmed somewhat in the first quarter, leading the company to boost production. A large manufacturer of home appliances said that shipments in the first quarter were down slightly from a year earlier. Many small manufacturers indicated that production and new orders remained weak. However, a few in the packaging materials and tool and die industries reported steady volumes, and one in paper products even planned to expand its workforce.

Banking and Finance
Overall lending activity appeared to slow slightly in March and early April. Household loan demand softened somewhat. Many bankers said that refinancing activity remained robust but had slowed from the torrid pace earlier in the year. Some lenders also noted that credit card volumes and auto loan demand had tapered off. Standards and terms on household loans were largely unchanged, but overall credit quality may have slipped somewhat. There were a few new reports of increases in delinquencies and defaults, particularly on home-equity and mortgage loans. Business loan demand remained weak, with some lenders describing the market as "stagnant" and "lacking energy." Most bankers said that overall commercial loan volumes were flat to down slightly. However, one large bank reported that demand picked up in March, with at least some of the increase due to existing customers expanding their businesses. Standards and terms for commercial loans were largely unchanged. Reports on business loan quality were mixed but generally suggested a slight improvement. One contact noted a rise in charge-offs related to fraud, and several indicated that banks continued to add to their loan-loss reserves.

Prices and Employment Costs
Contacts continued to report increases in some input costs, but an intensely competitive pricing environment helped to keep broad-based price pressures in check. Manufacturers again saw increases in energy, steel, aluminum, and petroleum-based input costs. Agricultural contacts also noted rising fuel and nitrogen costs, though many farmers had previously locked in lower prices. Employment costs, outside of health insurance premiums, remained largely subdued in recent weeks. There were no new reports of upward pressure on wages. In fact, one temporary help contact said that many employers were pushing across-the-board pay cuts to contain costs. Few businesses were able to pass along input cost increases. Rather, many suppliers of goods and services indicated that their customers (including large manufacturers and retailers) continued to exert pressure on them to reduce prices, putting a further squeeze on margins. Contacts suggested that retail competition remained intense, and most were using more and steeper discounts to move merchandise.

Agriculture
With spring planting under way in some areas, drought concerns have been mitigated by recent precipitation across much of the District. However, with soil moisture reserves low, timely rains will be more essential for good yields this year. Cattle prices remained high, while hog prices were lower than a year ago. The adverse impact of dropping milk prices on dairy farmers has spread to their suppliers, as accounts payable were increasing at an "alarming" rate. To generate cash, some dairy farmers were selling their cows and renting their land. In areas that had poor yields last year, there were reports of farmers being unable to pay off their operating lines of credit. Cash flows were also hurting from delayed government payments due to changes in federal programs. All of these factors have resulted in more demand for operating loans. Even so, farmland values have increased because of continued demand from investors and recreational users, in addition to urban pressures and land exchanges for tax purposes.

Return to top

Eighth District--St. Louis

Contacts indicate that economic activity in the Eighth District has remained soft in recent weeks. In manufacturing, there are continued reports of plant closings, layoffs, and cutbacks. Retailers report that sales were relatively flat compared with last year and attribute sluggish consumer spending to colder weather and a late Easter, but some are optimistic about spring sales. Home sales are still up in most of the District, while commercial real estate markets continue to be sluggish. Total loan demand at small and mid-sized District banks has weakened throughout the first quarter of 2003.

Manufacturing and Other Business Activity
A broad-based recovery of the Eighth District manufacturing sector continues to be problematic as new reports of plant closings, cutbacks, and layoffs remain commonplace. Manufacturers in the electrical, furniture, wire and cable, paper, health-care, trucking, food, and tool industries are among those who have recently announced plant closings and layoffs. Contacts note that problems faced by the manufacturing sector continue to include low orders and profits, increased international competition, high operating costs, and a weak economy. Despite the reports of cutbacks, however, a few firms plan to move to or expand within the District, including some in the auto parts industry.

General retail sales in the District were mostly flat in March compared with 2002 levels. Some contacts note that colder weather and a late Easter are to blame. Several are optimistic about spring sales. Auto dealers report that, while March sales were an improvement from February, they were still down from March 2002 levels, despite the continuation of aggressive incentives. Contacts in the trucking industry note that profits shrank because of March's increase in fuel prices. To reduce costs, the airline industry has announced more cutbacks, which will affect employment in the District.

Real Estate and Construction
Home sales are still doing well in most of the District. The Memphis area saw an increase in total home sales of about 13 percent in February 2003 compared with February 2002. Similarly, northern Kentucky saw an increase of 26 percent. Contacts in St. Louis and northwest Arkansas reported that home sales were still strong in January. February year-to-date permit levels were lower in most of the District's metropolitan areas. Contacts in Memphis expect this to be a great year for residential construction. Residential construction has remained steady in Louisville, and housing starts are still doing well for first-time homebuyers in the $100,000-$150,000 range. In the St. Louis area, year-to-date single-family housing permits were down 6 percent compared with the same period last year.

Commercial real estate markets are still sluggish in most of the District. Contacts reported an increase in vacancy rates in the office and industrial markets in downtown St. Louis for the fourth quarter of 2002. Office vacancy rates also continued to increase in Louisville. A recovery in the Memphis area office market is not expected until mid-year 2003. Commercial construction is still slow in most areas. Contacts in Pine Bluff reported that several projects are in process at area colleges but that the prognosis for future funding is bleak. Commercial construction is lagging in Memphis, while there has been an increase in small construction projects in central Kentucky.

Banking and Finance
Total loans outstanding at a sample of small and mid-sized District banks were down 0.59 percent between early January and early April. This decline stemmed mostly from loans to individuals, which were down 2.3 percent over the same period. Commercial and industrial loans increased 2.6 percent, but real estate loans decreased 0.2 percent. At the same time, total deposits at these banks were up by 2.1 percent.

Agriculture and Natural Resources
Most farmers have begun preparing land for planting, while some have planted already. The most progress has been with corn in Arkansas, Mississippi, and southeastern Missouri, where farmers have planted between 57 percent and 70 percent of their corn.

Planting intentions for soybeans and wheat declined on average, while prospective corn, cotton, and sorghum plantings increased. In Mississippi, Kentucky, and Arkansas, farmers planted between 13 percent and 40 percent less winter wheat in 2002 to 2003 than in 2001 to 2002. Contacts say that this decline is due to wet fall weather that inhibited planting. In Illinois and Indiana, wheat plantings increased 18 percent and 29 percent, respectively, possibly marking the beginning of a turnaround from declining plantings since 1996. Farmers who were unable to plant wheat in the fall may well plant other crops this spring; corn planting intentions increased by 8 percent on average, while prospective cotton and sorghum plantings increased 7 percent and 9 percent respectively.

Return to top

Ninth District--Minneapolis

Ninth District economic activity decreased slightly in March and early April. The manufacturing, commercial real estate, consumer spending, and mining sectors were down. Although the energy sector was flat, winter tourism activity rebounded somewhat after a slow start. Residential real estate and agriculture grew. Over this period, labor markets loosened somewhat. Overall wage and price increases were modest. Significant price increases were noted in insurance and natural gas, and decreases were noted in gasoline.

Construction and Real Estate
Commercial real estate activity was slow. Vacancy rates for office buildings in Minneapolis-St. Paul recently topped 19 percent, reported a commercial real estate firm. A representative of a commercial real estate firm in the Minneapolis-St. Paul area noted that new leasing activity remained slow as companies are still consolidating some operations. However, sales of commercial real estate have been solid due to low interest rates. The value of permits awarded for commercial projects in Billings, Montana, were higher during the first quarter of 2003 than a year ago, according to a city official.

Residential building and real estate activity continued to show signs of strength. Housing units authorized in District states were up 15 percent for the three-month period ending in February compared with a year ago. A western Montana bank director noted recent strong residential real estate activity. Although the apartment vacancy rate in Sioux Falls recently reached its highest level since 1996, developers are adding more units.

Consumer Spending and Tourism
Recent retail spending was generally slow compared with a year ago, in part due to consumers' focus on war coverage and a late Easter relative to last year. A major Minneapolis-based department store and discount retailer reported weaker sales in March compared with a year ago. A representative of a leather products chain noted an immediate negative effect on sales when the Iraq war started; same-store sales were down about 7 percent in March compared with a year ago. A Minneapolis-area mall manager reported that although sales started out the year strong, several store owners have complained about slower traffic in recent weeks. Another mall manager in the Minneapolis area noted a steep drop-off in traffic during the first two days after the start of the war, but traffic and sales for the month of March as a whole were down only 1 percent compared with last year. A mall manager in North Dakota noted that sales were about even with a year ago.

Auto sales in Minnesota were very weak in February and March compared with a year ago; however, sales picked up by early April due to incentives, according to a representative of an auto dealers association.

Winter tourism activity rebounded somewhat after a slow start. The winter tourism season began slower than last year in Montana, according to an official; conversely, February and March were relatively strong. Lodging and visits to tourist destinations were up from a year ago in South Dakota. An official in the Upper Peninsula of Michigan reported a solid winter tourism season; however, traffic crossings at the International Bridge at Sault Ste. Marie were down 11 percent in March compared with a year ago.

Manufacturing
Manufacturing activity was down slightly. A March survey of purchasing managers by Creighton University (Omaha, Nebraska) indicated decreased manufacturing activity and lower new orders in Minnesota. As evidence, a Minnesota pipe fabricator temporarily reduced employment due to weak orders, and a northern Minnesota paper plant closed. A western Wisconsin video monitor factory and a tool producer are also closing. However, the Creighton University survey indicated increased activity in the Dakotas. For example, a new ethanol plant is planned for South Dakota.

Energy and Mining
Activity in the energy sector was level, while the mining sector was down slightly. End-of-March District oil and natural gas exploration levels were about equal with early March. Meanwhile, an iron ore mine in northern Minnesota announced plans to shut down temporarily due to weak orders. In addition, due to unseasonably cold weather, the start of the Great Lakes shipping season has been delayed, and therefore mine production may be reduced, according to an iron mining official.

Agriculture
The agricultural economy was up slightly. District cattle and sheep remain in mostly fair to good condition. The calf and lamb season is progressing well in most parts of the District. Montana received above-normal moisture in March, and the District winter wheat crop is faring better than last year's crop. According to the U.S. Department of Agriculture, District farmers intend to plant more acres of corn and soybeans but fewer acres of wheat this spring compared with the spring of 2002. Meanwhile, March milk prices dropped significantly from last year.

Employment, Wages, and Prices
Labor markets loosened somewhat as a number of layoffs were announced since the last report. A major Minnesota-based airline announced a new round of layoffs that will affect about 2,000 positions in the state, while a regional airline in Minnesota will cut 85 jobs. A computer maker announced the layoff of about 500 workers in South Dakota. In St. Cloud, Minnesota more than over 100 jobs will be cut at a valve plant, and 100 workers will be idled at a freezer factory for at least six weeks. A Minnesota-based firm that provides services for issuers of identification and credit cards recently announced about 200 layoffs companywide. A Minneapolis-based investment firm will lay off 100 local employees. Initial claims for unemployment insurance in Minnesota were up 14 percent in March compared with a year ago.

In contrast, a reservation center in South Dakota will add up to 200 jobs this spring. A new call center in Fargo, North Dakota will employ 200 workers within two years. Nurses remain in short supply in many areas of the District.

Wage increases were moderate. A bank director reported that wage increases were generally in the neighborhood of 2 percent to 3 percent over a year ago.

Although overall price increases were modest, significant price increases were noted in insurance and natural gas. Bank directors reported generally slight increases in prices, but mentioned significant increases in health and liability insurance. Small businesses in Minnesota expect double-digit increases in health insurance this year. Residential natural gas prices increased 15 percent in March compared with a month earlier. In contrast, as of early April, regular gasoline dropped 23 cents from a month ago and 6 cents from a year ago in the Minneapolis-St. Paul area.

Return to top

Tenth District--Kansas City

The Tenth District economy showed some signs of weakening in March and early April, due in part to the onset of war. Retail sales as a whole edged down, and manufacturing activity softened. In addition, commercial real estate remained in a slump. On the positive side, residential real estate activity maintained its strong pace, and energy activity continued to expand. In the farm economy, recent rain and snow eased drought conditions in some areas. Wage and price pressures remained largely subdued across the District, although prices for some manufacturing materials continued to rise.

Consumer Spending
Retail sales in the District fell slightly in March and early April after improving earlier in the year and were lower than a year ago at most stores. Many retailers said sales in early March were soft and that both traffic and sales slowed further after the onset of war in Iraq. Some stores in the District's Rocky Mountain states, however, reported a rebound in sales in recent weeks as local weather conditions improved after heavy snows in mid-March. Among product categories, apparel sales appeared to be weakest. Most managers were hopeful that consumer confidence would improve with the conclusion of the war, resulting in stronger sales. However, stores were keeping inventories lean, and many managers expect to trim stock levels in coming months. Motor vehicle sales were weak in March but began to pick up slightly in early April after the expansion of some manufacturer incentives. As in previous surveys, demand for SUVs remained solid, but sales of most other types of vehicles were sluggish. Most dealers expect further gradual improvement in sales by early summer and plan to increase inventories accordingly. In the tourism industry, the Rocky Mountain ski resorts posted strong attendance figures in late March and early April, as fresh snowfall appeared to offset travelers' hesitancy caused by the start of war.

Manufacturing
District manufacturing activity weakened somewhat in March and early April. Although some contacts attributed the softening to the onset of war, the majority of firms reported that the war was having no effect on their business. Production and shipments fell slightly below year-ago levels after rising in recent months, and many factories continued to shed employees. Indeed, nearly all of the large layoff announcements in recent weeks have been from manufacturers. Inventories of finished goods rose moderately as some customers delayed their purchases. Despite the recent slowing, manufacturers maintained their optimism about future production and were increasing inventories of raw materials. Expectations for future hiring also remained positive. On the other hand, expectations for future capital spending eased somewhat after improving in February.

Real Estate and Construction
Residential real estate activity in the District continued to show strength in March and early April, although commercial real estate activity remained weak. Single-family housing starts increased further in most District cities, with builders reporting little effect from the onset of war. Much of the increase continued to be for lower-priced homes, although several contacts mentioned some pickup in higher-end homebuilding as well. Builders generally expect typical seasonal increases in home construction through early summer. Home sales across the District remained relatively steady in March and early April, although inventories of unsold homes were higher than a year ago in most cities. Many realtors reported good buyer traffic in recent weeks and expect solid sales to persist into the summer months. Mortgage demand continued to be quite strong throughout the District, and lenders generally expect demand for both new home loans and refinancings to hold steady. In contrast to the residential market, commercial real estate activity remained weak across the District in March and early April, with some cities experiencing further difficulties. Office vacancy rates edged up in Denver and Kansas City, and prices of office space in those cities fell slightly. Absorption rates were fairly constant across the District, however, and commercial realtors generally do not expect further deterioration of office markets in coming months.

Banking
Bankers report that loans declined and deposits rose since the last survey, reducing loan-deposit ratios. Demand increased for home mortgage loans and home equity loans but fell for other categories, especially commercial and industrial loans. On the deposit side, all types of accounts rose except large CDs, which held steady. Some respondents attributed the increase in liquid accounts to a flight to safety. All respondents left their prime lending rates unchanged since the last survey, but half of them reduced their consumer lending rates slightly. Lending standards were generally unchanged.

Energy
District energy activity continued to expand in March and early April. By mid-April, the count of active oil and gas drilling rigs in the region had risen almost 10 percent from early March and nearly 40 percent from the beginning of the year. Although energy prices have declined from recent peaks, they remain relatively high in comparison to previous years. Natural gas prices are expected to stay above average through the summer as companies replenish unusually low inventories. In addition, significant new gas pipeline capacity from the Rocky Mountains is scheduled to open in coming weeks. As a result of these factors, drilling activity is expected to remain solid in 2003.

Agriculture
In the District's farm economy, recent rain and snow have eased drought conditions in some areas. The precipitation has helped pastures, but the damage sustained from the drought will take time to overcome. Spring planting conditions have also benefited from the moisture. Recent credit reviews suggest that farm borrowers were still experiencing some deterioration in their finances in drought-stricken areas. Most District bankers remain cautious, and some have tightened their farm lending standards. If moisture conditions continue to improve, farm balance sheets are expected to strengthen this year.

Wages and Prices
Wage and price pressures remained generally muted across the District, although high energy prices continued to squeeze some manufacturers' profit margins. Labor markets were still very slack in March and early April, and managers reported few problems finding workers. However, the pace of layoff announcements continued to ease after rising last fall. Wage pressures were virtually nonexistent, and some employers have sought to control costs by eliminating matching funds for retirement plans. Retail prices continued to ease due to promotional discounting, and retailers expect prices to be flat to slightly lower in coming months. Manufacturers continued to report rising prices for some petroleum-based products, but the easing in gasoline prices in recent weeks has led to reductions in suppliers' transportation surcharges. Several manufacturers also reported that finished goods prices have declined since the previous survey after showing signs of firming earlier in the year. As in previous surveys, prices for construction materials were largely unchanged and are expected to remain flat through early summer.

Return to top

Eleventh District--Dallas

Eleventh District economic activity was mixed from mid-February through mid-April. The energy industry, including energy-related manufacturing, picked up strongly. But other manufacturing activity was mostly flat or down. Activity in the service sector was also mixed. Retailers reported a drop in sales. Construction and real estate markets continued to be soft, and the financial service industry reported little change in activity. Overall agricultural conditions remained relatively stable in the last seven weeks.

Contacts vary in their outlook for future activity. There is optimism in some industries that activity will pick up soon, as uncertainty surrounding the war dissipates. Other contacts are more pessimistic about the outlook than they were a few weeks ago. These contacts expressed concern that the economy is not necessarily going to bounce back quickly after the war because businesses are very reluctant to make capital investments until they are certain demand is picking up in their industry.

Prices
Price pressures were mixed since the last Beige Book. There were some reports of downward price pressure for goods, such as for aluminum products and scrap metal. Energy prices remained high but have fallen since March. Inventories of crude oil, which had reached the lowest levels since 1974, are being rebuilt in the last couple of weeks. Gasoline consumption has been near the top of the five-year range, while inventories are near the bottom of that range. The inability of refiners to build gasoline stocks in early spring is expected to keep gasoline prices high for much of the summer. Cold weather in the Midwest and New England areas caused the Henry Hub price of natural gas to spike to $16.00 per thousand cubic feet in late February. Strong demand has kept natural gas prices above $6.00 per thousand cubic feet for more than two weeks. Natural gas inventories were 50 percent higher than their five-year average as the heating season began, and 50 percent below average as it ended. Higher energy costs have also pushed up prices for plastics, chemicals, paper, and plastic packaging.

There continue to be widespread concerns about high insurance costs. Accounting firms have increased fees to accommodate rising insurance costs and additional work imposed by the regulatory changes from the Sarbanes-Oxley bill. These firms say that their customers are having difficulty passing these higher fees on to their selling prices.

Several contacts noted that wage pressures had lessened or the company was offering smaller wage increases. Contacts say that temporary workers are commanding far lower salaries, particularly for sales and marketing, where yearly salaries have dropped from $80,000 to $65,000.

Manufacturing
Overall manufacturing activity was mixed, with a pickup in energy-related activity but little signs of growth in other sectors. While there had been a slight increase in demand for a few construction-related products, sales of most construction-related products were soft and contacts expect demand to weaken as building continues to soften.

Conditions in high-tech manufacturing were flat. Contacts said the biggest obstacle to a significant turnaround continues to be weak capital spending by businesses. One respondent noted that SARS is having significant supply and demand effects in Asia, and one of their factories in Asia had been shut down for at least 10 days after a worker became infected with the illness. Overall inventory levels were reported to be lean, and productivity gains were helping to improve profits.

Demand for fabricated metals has been flat during the past six weeks and slightly down from a year earlier. Contacts said that private investment was very weak, but public spending (on construction projects) was helping to buoy demand. Demand for primary metals was also flat to down over the past six weeks, which contacts attributed to a lack of business investment due to the war and stiff competition from China. The demand for lumber has increased slightly over the past month, but contacts expect a slowdown as home building cools. Contacts in the stone, clay, and glass industries said the demand has risen over the past six weeks.

Demand for food products has slowed over the past month, and contacts say their customers are being cautious in their ordering because of the war. Demand at "white table cloth" restaurants has weakened, they say, but "middle of the road" restaurants are making up for it. Demand for paper products has been "light." Paper producers say competitive pressures have been stiff, and heavy inventories have led some companies to reduce production and lay off employees.

Strong demand and profits have led refiners to run at high levels of capacity utilization--higher than 90 percent--in recent weeks. Refineries are postponing or minimizing the normal spring turnarounds to switch from heating oil to gasoline. Demand for petrochemicals has also been strong, particularly for products tied to construction. However, high natural gas prices have led some energy-intensive plants to shut down, and all plants have struggled to pass through the increased cost of production. A substantial increase in basic chemical and plastic production was reported in early April after natural gas prices fell below $5 per thousand cubic feet.

Services
Demand for temporary workers remained strong overall. There has been a sizable increase in demand for workers to supply durable goods manufacturing, call centers, and technology, but demand has weakened for clerical and administrative support workers. Legal firms reported little change in demand for services to support regulatory, litigation, and bankruptcy work. Demand continues to be virtually nonexistent for mergers, acquisition, or venture capital activity. Accounting firms say demand remains strong from energy, construction, and financial sectors, as well as additional work to support the regulatory changes imposed by the Sarbanes-Oxley bill.

The airline industry continues with its struggle to find the road to solvency. Demand for air travel fell as the war in Iraq started; international travel, which was also hurt in areas affected by the SARS virus, was particularly hard hit. Some carriers have temporarily suspended flights to SARS infected areas. Wage reductions and additional layoffs are reducing costs, but costs continue to rise due to a snowstorm in the Northeast and hail damage in Texas. As one contact noted, "we can't get a break."

Trucking activity improved markedly over the past four to six weeks. Rail shipments were also higher than year-ago levels, with significant increases in shipments under the category that includes military traffic.

Retail Sales
Retailers reported that when the war became imminent, sales dropped between 3 percent and 5 percent on a store for store basis compared with last year, after adjusting for the movement of Easter. Sales of women's apparel have been particularly weak.

Automobile sales in the District remain below year-ago levels, although the so-called "CNN Effect" appears to have lifted since the start of the war with Iraq.

Financial Services
Overall activity remains unchanged. Deposit growth is still relatively strong, which contracts attribute to continued uncertainty over economic conditions. Loan demand has been mostly stable. Auto lending remains slow, despite several attempts by auto manufacturers to entice new buying. Real estate lending is still strong, mostly due to refinancing activity.

Construction and Real Estate
Nonresidential markets continued to be very weak since the last Beige Book. The single-family market was mixed; sales of homes priced below $175,000 or above $1 million are strong. "Caution prevails" in office markets but several contacts suggested that they believe the market has hit bottom.

Energy
The U.S. rig count pushed up from near 900 to 972 in recent weeks. Higher natural gas prices and expectations that they will be sustained have stirred up substantial interest in domestic drilling. Respondents are forecasting a substantial increase in the rig count ahead, perhaps as high as 1,200 before running into labor or resource constraints. So far, the additional drilling is relatively unsophisticated--with few signs of a pickup in difficult areas, such as deep Gulf of Mexico. Contacts report the lack of drilling in the shallow Gulf may be related to pending government subsidies, but that there is substantial interest in the deep waters of the Gulf in the months ahead. International drilling remains unchanged, with the downside risk for oil perceived as much greater than for natural gas.

Agriculture
Strong spring rains continue to improve moisture conditions in parts of the District, although other areas remain dry. Higher cotton prices have encouraged more planting of that crop compared to last year. Feeder cattle continue to sell for near record highs.

Return to top

Twelfth District--San Francisco

Reports from Twelfth District contacts suggest that economic growth was sluggish during the period from March through early April, with limited negative effects arising from the start of military operations in Iraq. Price and wage pressures were minimal, and retail gasoline prices largely remained at elevated levels. General retail sales held up on net, though they appear to have weakened a bit toward the end of the survey period, partly due to concerns about the war in Iraq. The war, along with the East Asian outbreak of the respiratory ailment "SARS," had a discernible negative effect on travel and tourism activity, especially visits from abroad. Demand for high-tech equipment and other District manufactured products fell slightly on net, and respondents noted significant excess capacity for various products. Sales of agricultural products were solid, due in part to strong export demand, and contacts reported capacity expansion in the fuel and energy sectors. Although commercial real estate markets weakened further, home demand was strong, although slower activity was reported in some markets. Banks and other financial intermediaries saw continued weak demand for business loans and strong demand for residential mortgages.

Prices and Wages
District contacts reported little upward pressure on wages and prices in the most recent survey period, except for increases in employer benefit costs and the price of transportation services. Despite a recent decline in oil prices, retail fuel prices fell only slightly from elevated levels established in early March. Providers of transportation services passed on some of the increased fuel costs to customers, and shipping costs rose due to delays associated with tightened security procedures related to imports. More generally, upward price pressures were quite limited, as stiff competition forced many retailers and service providers to offer their products at discounted prices. Although rising prices for health insurance increased employer costs for employee benefits, wages reportedly were flat to down a bit, as most labor markets were characterized by significant excess supply.

Retail Trade and Services
Demand for retail goods and services weakened a bit compared to the previous survey period. Retail sales were largely stable on net, and contacts noted that consumer spending held up better after the start of the war in Iraq than it did following the start of Operation Desert Storm in 1991. Sales of new and used automobiles and light trucks were described as robust for the survey period as a whole, though some dealers noted a pause in activity when the military conflict began. Retail inventories in general have been kept lean in recent weeks, and one contact reported cancellations of apparel orders by some department stores.

Travel and tourism activity fell noticeably in some areas in response to the start of the war and the outbreak of the SARS epidemic in East Asia. Respondents reported extensive reservation cancellations and lower hotel occupancies in Los Angeles, Hawaii, and other areas, largely due to a decline in visitor arrivals from East Asia. Moreover, airlines cut flights on selected Asian and European routes in response to a decrease in bookings and lower passenger load volumes. Domestic travel also remained weak. Outside of travel-related industries, service demand was largely stable, with robust conditions reported for health care and related services.

Manufacturing
District manufacturers struggled with somewhat weaker sales and significant excess capacity during the survey period. Demand for most technology products was sluggish and perhaps fell a bit, as businesses further delayed upgrades to their existing stocks of computer, networking, and communications equipment. Capacity utilization reportedly was low for all but the most advanced technology products, and utilization was well below preferred levels in other industries, such as machine tools and food processing. Inventories of unused planes were at high levels, which undercut demand for new commercial aircraft. Due to high production and a steady flow of Canadian imports, lumber prices reportedly were at twelve- to fifteen-year lows, which may lead to curtailed domestic production going forward. Among manufacturers reporting modest strength, such as providers of construction equipment and building materials, demand increases have been met largely through the use of overtime hours rather than through the hiring of new employees.

Agriculture and Resource-related Industries
District agricultural and resource-related businesses reported solid demand in recent weeks. Sales and prices of tree fruits and nuts were strong, spurred in part by continued strong export demand, and favorable weather produced healthy growing conditions for many West Coast crops. Contacts noted substantial new investments and expanded capacity for extraction of oil and natural gas, along with plans for new electrical generation facilities in some areas.

Real Estate and Construction
Demand for commercial real estate remained stagnant in most areas, while residential market activity continued at high levels overall, despite scattered signs of cooling. Office vacancy rates generally remained high, and rental rates fell further in some areas. However, vacancy rates for commercial space improved a bit in Southern California and Hawaii, where overall economic conditions have been relatively favorable. Home sales continued at a rapid pace in most areas, fueled in large part by low mortgage interest rates. However, the pace of sales growth and price appreciation fell slightly in some areas, most notably in Utah. Moreover, citing a weak economy and economic uncertainties related to the war in Iraq, a few District developers have delayed planned construction projects in recent weeks, including several multifamily housing developments that were put on hold in Salt Lake City.

Financial Institutions
Contacts reported generally weak loan demand by businesses but strong demand for new residential mortgages and extensive refinancing activity for residential and commercial real estate loans. In contrast to most areas, banks in Southern California and Hawaii saw steady growth in commercial loans. The volume of residential mortgage loans remained high but fell a bit in some areas, notably in Utah. Credit was amply available for low-risk borrowers throughout the District.

Return to top