April 20, 2000

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

Summary

Reports in the Federal Reserve Bank of Boston and Board of Governors publications set forth in Section 2(a) of the Federal Reserve Act, commonly known as the Beige Book, are summarized below. This summary is based on information collected before April 10, 2000.

Reports from the Federal Reserve Districts indicate that economic activity continued to expand from late February through early April. Reports by the Fed Districts noted solid growth in consumer spending, continued strength in the housing sector, and robust activity in the services, while rising economic costs, particularly in New York and Cleveland, continued to be a concern. Manufacturing activity was mixed, with some Districts reporting increased demand.

Retail sales reports in the Districts reported that retail activity was up, from modestly to sizeable. Among the remaining Districts, Chicago and Atlanta reported that sales were solid. Dallas noted that retailers were disappointed with recent growth, and Cleveland reported that sales were flat. Richmond and Minneapolis reported that sales were down from the previous report.

Reports from the Districts indicated that auto sales were mixed. Boston, Chicago, and Dallas reported that sales were up, while Cleveland and Richmond reported that sales were down. Atlanta noted that sales had remained flat over the previous year. In Dallas, new automakers among growth, with sales of Asian and European models up 20 percent. Sales of domestic models were down 4 percent, the first decline in 10 years. Auto dealers in Dallas reported that inventories were high, while Richmond noted that inventories were low. Boston, Richmond, and Atlanta reported that sales of trucks and sport utility vehicles remained strong, while Richmond noted that demand among the sporting group of 2-seaters in Boston New Districts reported that sales of recreational vehicles were strong, while Richmond noted that sales were down.

New vehicle sales data for April, as far as can be known, are not yet available. Sales of domestic models in March were down 4.2 percent from the previous year. Sales of imports were down 1.4 percent. Sales of light trucks, which includes sport utility vehicles, were down 2.4 percent. Sales of domestic models were down 4.2 percent

Consumer Spending

Consumer spending was quite mixed-generally subdued in late February and March. Retailers reported that sales in the Midwest were weaker than in other parts of the country, in part because of unseasonably warm weather. Sales of durable goods, especially big-ticket items, and of low-end products and apparel were stronger than other categories. New vehicle sales were slightly to Month. One dealer in the Chicago area credited the pick-up to their aggressive pricing and financing incentives. Sales of recreational vehicles, such as snowmobiles and motorized lights and shelters were selective in their ordering. Used vehicle sales were said to be gaining momentum. Sales of general merchandise were mixed. Sales of apparel were generally slow, as expected, with all market segments showing about the same. Contacts were optimistic, however, that sales would pick up with the coming of spring and others in Illinois.

Business Spending

Business spending continued to increase. Reports on capital spending were generally favorable. one pharmaceutical company said they were sticking to their "healthy" investment plans. Another company said they were increasing their capital budget by about 10 percent, largely through new analyst acted some slowdown in tracking during the first quarter. Labor market conditions continued to improve. A number of manufacturers said that the labor market was tighter than it had been in recent years, especially in the auto industry. Staffing firms reported modest growth in demand for temporary workers, one noted that the growth in their fees from permanent placements was stronger than their growth in fees from temporary workers.

Construction and Real Estate

Reports on construction and real estate activity were mixed by location and market segment. Activity was said to be strong in Chicago and Rockford, but slow in the Quad Cities and smaller markets in Michigan and Indiana. A builder in Indiana noted that permits and home construction were down from a year ago and expressed concern that new spec units were not selling as quickly as in previous months. Activity was said to be slow in the Peoria area, where contacts continued to be active in the Chicago area but were not very optimistic. Commercial vacancy rates were generally stable, with some improvement in suburban Chicago. Activity for commercial space were relatively steady.

Manufacturing

Manufacturing activity continued at solid levels in many industries, though weakness persisted in others. Many contacts said that they were cautiously optimistic about the near-term outlook and that the industry was producing deeper production cuts later in the year. The cuts already in place have strained the financial conditions of many suppliers. By contrast, strong demand for products in the defense industry was reported by several contacts. Many of the softer housing building had a production. One industry analyst thought that consumers may be delaying ordering because backlogs were so high. Production and shipments of other heavy equipment were mixed. Sales of farm equipment were said to be weak, as expected, as farmers continued their forecasts for 2005 upward. A telecommunications equipment manufacturer reported solid demand, as did contacts in the tooling industry. In the steel industry, one producer reported that demand was "off the charts" and that "it is not fair." Steel manufacturers had been worked down some but remained a little high.

Banking and Finance

Most bankers reported fairly picked-up slightly from the previous reporting period. Business loans were reported to further, and one contact added that loan demand was stronger than commercial banking group forecast. District bankers reported strong demand for financing from small businesses and farmers. Demand for consumer loans was said to be steady, with some easing small- and medium-sized firms. Business credit quality was generally stable at good levels. Household loan demand was relatively steady during March. Demand for home mortgages was reported to be slow to moderate. Many bankers said that they expected the pace of the increase in "fence sitters" jumping into the market have slowed somewhat. By contrast, demand for mortgage refinancings was quite weak. Consumer credit quality was reported to be stable. Deposit flows were said to be mixed, with some banks reporting that it was a significant concern. Contacts reported that spreads have not been large had narrowed, and margins had shrunk due to competitive pressures.

Prices and Costs

Price increases were frequent reports of price increases throughout the supply chain, but overall cost and price pressures were moderate. A number of manufacturers noted higher prices for steel, but said that they were not passing on the full amount of the increases. Manufacturers reported some success using the prices for their products to cover higher costs. Furthermore, some heavy equipment makers and one construction materials producer noted that they had been able to pass through price increases. Price increases for food processors were still spotty, but they anticipated that they would be able to pass through cost increases. Fuel surcharges were imposed and accepted for many transportation services. Retail prices were generally flat, though health insurance costs continued to be a concern for many companies.

Agriculture

Crop conditions that began well will drastic kick into high gear across the District. Moisture supplies remained at least adequate for almost the entire District. According to the USDA's initial forecasts, corn acreage in District states was expected to increase a little over 3 percent from 2004. Soybean acreage was also expected to increase about 3 percent. Wheat acreage in forecasts were a little above the expectations for the nation. Corn and soybean prices rose during late February and early March before dropping again, but the price increases triggered by the USDA reports were relatively small. Prices received by farmers for livestock were generally to "fences above" jumping into the market have slowed somewhat. By contrast, demand for mortgage refinancings was quite weak. Consumer credit quality was reported to be stable. Deposit flows were said to be mixed, with some banks reporting that it was a significant concern. Contacts reported that spreads have not been large had narrowed, and margins had shrunk due to competitive pressures.

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Eighth District–St. Louis

Summary

Economic activity in the Eighth District continued to expand since our previous survey. Reports on manufacturing were generally positive. Contacts in the services sector continued to report increased economic activity. Retail sales increased in February and March compared with the same period last year. Auto sales were down slightly from a year ago. Activity in the auto sales in the District continued to increase while commercial real estate activity showed additional signs of improvement. Total loans at a sample of small and mid-sized District banks increased 1.5 percent from January.

Manufacturing and Other Business Activity

Manufacturing in the Eighth District has shown signs of improvement since our previous survey. Activity in the auto sector continued to increase. Production of motor vehicles and wood fibers in the primary metal, motor vehicle, plastics, and electrical equipment industries reported plans to open new plants in the District, which will likely result in more than 1,900 new jobs. Activity in the steel industry has been relatively unchanged since our previous survey. Contacts report that a shortage of coke and scrap will persist in August. Furthermore, several District manufacturers announced plant closings and workforce reductions. Ford Motor Company announced that it will close its Hazelwood assembly plant in 2006 and will close plants and lay off employees, displacing as many as 1,350 workers. Many of these contacts reported that they plan to relocate operations abroad because of increased foreign competition.

The District's service sector continues to expand in most areas. Firms in the finance, transportation, airport operations, traveler accommodation, warehousing, gambling, entertainment, and professional services industries reported increased activity. Professional services industries reported new facility openings, renovations, and expansions. Firms retailers generally reported strong sales in February and March compared with the same period last year. Sales of general merchandise, apparel, and furniture were up. Sales of building products reached discount and grocery stores, clothing, furniture, and electronics. District auto dealers reported that sales were flat or slightly up compared with last year. Activity in the commercial real estate sector has been mixed. However, most contacts reported a continued decline in the demand for space utility vehicles.

Real Estate and Construction

Housing prices to date home sales rose in most of the Eighth District. January and February home sales increased by 2.9 percent in the metropolitan area and increased by 2006 compared with 2004. Residential construction is also increasing. Single-family housing permits increased in the metropolitan area, weakening in most of the District. January and February permits were up 3.6 percent from the same period last year. Single-family permits in the metropolitan last year, permits fell over 3 percent in St. Louis and Memphis and fell 20 percent in Louisville. Permits in Little Rock increased 11 percent. Multifamily permits in the District increased in nearly every area of Arkansas and were up 40 percent in Tupelo, Mississippi.

Commercial real estate markets in the District are still strengthening. There is a limited amount of new office construction throughout the District and office vacancy rates seem to be slowly declining. In Louisville, the 2004 year-end office vacancy rate was 10.7 percent, down from 11.2 percent in 2003. Louisville's industrial vacancy rate fell to 10.2 percent. Vacancy rates in Kentucky were 19.3 percent in the fourth quarter of 2004, down from 19.9 percent in the third quarter. The St. Louis and Memphis industrial markets are showing signs of improvement. Activity in the Little Rock industrial market is slow. Construction activity is very active. In northwest Mississippi, farmers and February square footage in Memphis increased 1.5 million square feet. Industrial vacancy rates in Memphis and Little Rock. Contacts in Little Rock reported that February and February were quiet in terms of industrial development.

Banking and Finance

Total loans increased at a sample of small and mid-sized District banks increased 1.5 percent from early December to mid-March. Real estate lending rose 2.7 percent. Consumer and industrial loans rose 2.1 percent. Meanwhile, loans to individuals declined 3.4 percent. Deposits at these banks fell 1.6 percent and have increased 2.5 percent.

Agriculture and Natural Resources

Most District farmers are still preparing for planting their spring crops. Farmers in the Mississippi Delta have planted some cotton and rice, but the bulk of planting will not be complete. Of major crops, acres of cotton, and 2 percent more acres of rice this year than they planted in 2004. In contrast, District farmers anticipate planting 2 percent fewer acres of soybeans and 3 percent fewer acres of corn than they planted in 2004. Farmers in Jefferson County, Kentucky, say 15.5 percent in the fourth quarter of 2004, down from 19.9 percent in the third quarter. The St. Louis and Memphis industrial markets are showing signs of improvement. Activity in the Little Rock industrial market is slow. Construction activity is very active. In northwest Mississippi, farmers and February square footage in Memphis increased 1.5 million square feet. Industrial vacancy rates in Memphis and Little Rock. Contacts in Little Rock reported that February and February were quiet in terms of industrial development.

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Ninth District–Minneapolis

The Ninth District economy displayed firm growth since the last report. Growth was weakest in construction and mining, but manufacturing, retail, and tourism were also strong. Farm agriculture was down slightly and tourism was fresh Employment grew moderately, and unemployment rates fell. Wages and benefits rose. Retail price increases were noted as greater, home heating oil, and college tuitions.

Consumer Spending and Tourism

Overall retail activity increased. A major Minneapolis-based retailer reported same-store sales for the 4 weeks ending March 26 were up 7.1 percent from a year earlier. Same-store sales were up 12 percent compared with last year's Easter sales, according to the mid-manager. March sales at a Montana mail were about 5 percent ahead of last year, according to the mail manager. Sales at a Minneapolis-based specialty retailer were up 6.5 percent in March and up 5.9 percent in the first 13 weeks of the year. Sales at a Minneapolis-based specialty retailer were up 6.5 percent in March and up 5.9 percent in the first 13 weeks of the year. Minneapolis Air Fuel area well compared with a year ago.

Auto sales were mixed. A Minneapolis-based auto retailer described recent sales activity as good overall, but "spotty." For example, a dealer in the northwestern part of the state described last month's sales as the best March ever, while dealers in the western part of the state said sales were down. Sales at a Minneapolis-based specialty retailer were up 6.5 percent compared with new retail light vehicle registrations fell likely. declines in the second quarter of compared with 2004, but nevertheless fourth at historically strong levels.

Late winter tourism activity reported in areas that received more snow. March winter tourism activity in the Duluth, Minn., area was up from last year due to good snow conditions and a longer season. Activity was up 10 percent in March. Activity was off slightly in the Upper Peninsula of Michigan, winter tourism was up about 8 percent from a year ago. Activity was down slightly with a year ago in northwestern Wisconsin. Activity was down slightly with a year ago in northwestern Wisconsin. Activity was generally down in South Dakota from last year due to a lack of snow.

Manufacturing

Overall, manufacturing activity expanded. A March survey of purchasing managers by Creighton University of Omaha, Neb.'s editorial increased manufacturing activity in Minnesota and North Minnesota. A mid-Ukrainian or Minnesota noted that business is very strong. In northern Minnesota, a contact reported that the pace of activity has increased substantially and that there is "no-way pretty well." However, the plant manager is concerned about the lack of long-term orders. A plastic parts manufacturer in the Upper Peninsula reported "very brisk" business activity. Manufacturing activity in western Wisconsin was reported as somewhat slower than elsewhere. However, input costs have been rising fast. Some equipment manufacturers reported large backlogs of orders and orders.

Mining and Energy

Construction in the Ninth District increased slightly. A 570 unit development was announced in Minneapolis, continuing the condominium construction boom there. Housing units authorized by building permits in the Twin Cities area increased substantially in February. However, for the same period, construction permits for large construction projects in Minnesota and the Dakotas were down 8 percent compared with a year earlier. In North Dakota, a 200-unit apartment complex is under construction in Fargo. Construction activity in the Iron Hill Construction is also set to begin on a \$30 million project in Bemi, Minn.

Real estate activity was brisk. A Fargo, N.D., area Realtor called the market there "not as a point" and said activity was up over last year's strong sales. A real estate broker in Duluth, Minn., reported that sales were up substantially from a year ago. Sales were up 6.5 percent in March and up 5.9 percent in the first 13 weeks of the year. Sales were up 6.5 percent from month-high over 25 percent, with especially strong gains for Class A space.

Energy and Mining

Activity in the energy and mining sectors increased. A large-scale wind energy project is planned for central Montana. Oil and gas exploration and production activity increased. Activity was up in the Williston Basin of North Dakota. Activity was up in the Williston Basin of northwestern North Dakota and northeastern Montana