July 30, 2003

Summary of Commentary on Current Economic Conditions by Federal Reserve District

Summary

Prepared at the Federal Reserve Bank of Richmond and based on information collected before July 21, 2003. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Reports from the twelve Federal Reserve districts provided additional signs that the pace of economic activity increased a notch during June and the first half of July. Only the Chicago, St. Louis, and San Francisco districts characterized economic activity as sluggish while Atlanta described conditions as mixed. Reports from the remaining districts suggested somewhat stronger growth in the weeks since the last Beige Book. Consistent with the generally more positive assessments of current economic activity, several districts noted increased optimism about economic prospects in coming months.

In particular, manufacturing activity edged higher in most districts, and Philadelphia and Richmond cited an end to the recent declines in production. The districts' reports also suggested that activity in the services and energy sectors grew somewhat faster in recent weeks. In contrast, consumer spending remained lackluster-only New York reported a noticeable improvement in retail sales. Housing sales and starts remained strong across districts, spurred by low mortgage interest rates, but commercial real estate conditions remained sluggish. Prices were generally little changed, though higher health insurance costs continued to be passed on to employees according to some districts. In agriculture, excessive rainfall delayed harvesting and damaged crops in several districts but was credited with alleviating drought conditions in other districts.

Consumer Spending and Tourism

Retail sales were mixed across districts since the last Beige Book report. Sales improved noticeably in the New York District, while sales in the Atlanta, Kansas City, Minneapolis, and Philadelphia districts, sales posted slight to modest gains. In contrast, sales revenues were said to be flat in the San Francisco District, lackluster in the Chicago District, and below year-ago levels in the St. Louis District. Among categories, apparel sales were weak in the Boston, Cleveland, and Philadelphia districts, but were higher in the New York and Richmond districts. Richmond also reported stronger sales of home merchandise, hardware, and building supplies. In the Chicago and Philadelphia districts, consumers were said to be buying less expensive brands of merchandise. Retailers in the Atlanta, Dallas, New York, and San Francisco districts cited heavy discounting and noted that retail prices remained competitive. Retail inventories in the Atlanta District were described as low and balanced, but in the Dallas and St. Louis districts, some retailers reported excess inventories.

Reports on automobile sales across the districts were mixed. Sales were flat to lower in the Cleveland, Dallas, St. Louis, and San Francisco districts. Sales were steady in Philadelphia and Richmond, but were mixed in Atlanta. In the Kansas City District, motor vehicle sales improved in areas outside of Colorado, and Minneapolis reported that automobile sales were above year-ago levels. Contacts in several districts said new vehicle inventories were above desired levels. Dealers in the Kansas City District reported record-high inventories, but they expected the inventories would be drawn down in coming weeks.

Tourism and travel reports were also mixed in June and the first half of July. In the Chicago District, hotel occupancy rates were boosted by discounts and economy packages. Boston said that international travel more than doubled compared to last year, but the report indicated that travel industry expectations were not met because activity still trailed pre-9/11 levels. Likewise, early summer travel in the Atlanta District fell short of industry expectations even though a large cruise line in South Florida reported a recent spike in bookings and projected a robust second half. Kansas City indicated that passenger traffic rose at most airports in its District and that convention business in Denver was strong.

Manufacturing

Nascent signs of a recovery emerged in the manufacturing sector with 10 of the 12 district reports indicating mixed, steady or slightly improved conditions after an extended period of declines. Atlanta and St. Louis suggested continued softness in the sector, with both reports citing increasing plant closings and layoffs. Reinforcing the view of stronger conditions in manufacturing, nine of the twelve districts were optimistic about prospects for the sector over the next six months. Despite the stronger tone, prices of manufactured products remained soft.

Chicago's report noted that nationwide light vehicle production was "pretty good" through mid-July and that heavy equipment orders edged up, in part because of a weaker dollar. San Francisco reported that new orders in the information technology sector strengthened, reducing inventory levels. Suppliers to the defense and military industry in the Cleveland and Atlanta districts continued to report strong orders, while Boston and Dallas noted a pickup in demand for personal computers and computer hardware. Philadelphia added that demand increased for residential construction materials and orders rose for printing and industrial machinery components.

But weakness persisted in some segments of the manufacturing sector. Richmond and Atlanta reported that textile shipments continued to fall, Atlanta reported layoffs at an aircraft engine plant, and Boston noted weakness in the aerospace industry. Cleveland indicated that auto production fell further though the decline was smaller than in previous months. Chicago said that demand for steel remained soft and Dallas reported that energy-related manufacturing activity was softer.

On balance, capital expenditures in the manufacturing sector remained weak, although several districts reported an increase in investment planned for the future. Atlanta reported that firms remained reluctant to buy new equipment. Kansas City indicated that recent capital spending fell but that planned future investment edged up, as optimism about manufacturing prospects remained high. Boston and Dallas noted increases in capital spending for upgrades in hardware and software, while Philadelphia said that manufacturers planned to increase investment, though some firms indicated they would likely delay expansion until next year. St. Louis reported that several plants in that district have recently announced plans to expand.

Services

Ten districts reported increased demand in the service sector during recent weeks. Demand for legal services increased in the Dallas, New York, and San Francisco districts, and Philadelphia said demand for technological expertise and business consulting rose. In the San Francisco District, contacts reported stronger demand for high tech and real estate services. Atlanta, Boston, and New York reported a pickup in the demand for finance and insurance services and the Dallas report suggested stronger corporate finance and acquisitions activity.

Construction and Real Estate

Residential real estate activity remained strong in most districts in June and early July. Atlanta, Kansas City, and St. Louis said housing sales continued to rise while Boston, Cleveland, and Richmond reported that sales remained strong. Chicago indicated that overall sales activity was mixed. In contrast, Dallas indicated that the housing market remained weak. In terms of price levels, lower-priced homes continued to be the best sellers in the Boston, Dallas, and Richmond districts and sales of upper-price range homes held up in the Boston and New York districts. Richmond reported that home prices soared in Maryland in recent months and San Francisco said prices rose rapidly in Hawaii and southern California. However, home price increases moderated in the Boston and Cleveland districts. Residential building permits increased in the Cleveland, Kansas City, Minneapolis, and St. Louis districts. Kansas City said strong starts of entry-level homes offset weak starts of upper-priced homes. Atlanta, Boston, Chicago, and San Francisco reported that low mortgage interest rates continued to drive sales in their districts.

Commercial real estate conditions remained weak in most districts during June and early July. Very little new construction activity was noted-an exception was in the St. Louis District where construction activity had begun to pick up before being delayed by inclement weather. Commercial leasing activity also remained generally stagnant, although renewals and renegotiations drove some activity in the Chicago District. In contrast to the overall sluggishness, Atlanta and Richmond reported small increases in leasing and net absorption. Compared with the last Beige Book reports, vacancy rates edged higher in the Kansas City, New York, and San Francisco districts and were higher compared with a year ago in the St. Louis District. Chicago and New York reported that rents moved lower, and Richmond and Cleveland indicated that landlord concessions had reemerged in the office and retail sectors. However, several district reports noted pockets of improvement-leasing activity was up in the Atlanta and Minneapolis districts along with a substantial decline in vacancy rates in Lower Manhattan. Looking ahead, Cleveland, Dallas, Kansas City, Richmond, and St. Louis reported that their contacts expected the excess commercial space currently on the market to be absorbed slowly.

Banking and Finance

Lending activity was mixed across districts in June and early July, as solid residential mortgage demand was accompanied by weak demand for commercial loans. Most districts characterized residential mortgage demand as either increasing or continuing strong. Dallas reported a surge in mortgage lending because borrowers were anticipating rising mortgage interest rates and wanted to lock in the current low rates. Demand for commercial loans, however, was described as weak in the Atlanta, Chicago, and New York reports, and as declining in the Kansas City report. Philadelphia reported that bank lending to businesses had increased, but that the rate of growth remained slow as most business borrowers apparently saw little need to expand their operations.

Several districts reported little change in credit quality. Philadelphia said that credit quality was not currently a problem, but added that some banks believed a further deterioration in business conditions could lower the credit quality of commercial loan portfolios. Kansas City noted that some bankers had expressed concern that declining used car prices had lowered the credit quality of their automobile loan portfolios.

Prices and Wages

District reports suggested that price and wage inflation remained broadly in check, although increases were noted in the energy, transportation, and insurance industries. Atlanta reported that health care insurance premiums rose at a double-digit rate in June and early July. The rising costs of employee benefits, most notably health insurance and pensions, boosted non-wage labor costs in the Chicago, Dallas, Kansas City, and San Francisco districts. Most district reports described wage increases as minimal, and Kansas City reported that firms were providing no more than cost-of-living increases. Cleveland, Dallas and New York noted that rising benefit costs were being passed on to employees, and San Francisco reported that higher labor costs could restrain hiring in the near-term.

Prices charged by manufacturers were generally unchanged in Boston, Cleveland, and Kansas City, but Chicago reported some firming resulting from the weaker dollar. On the flipside, prices paid for materials by manufacturers were mixed. The Boston, Cleveland, and New York districts noted stable input prices, but moderate price hikes were reported in Dallas, Kansas City, and Richmond.

Agriculture and Natural Resources

Unusually heavy thunderstorms saturated wide areas of the Richmond, Atlanta, Chicago, and Dallas districts in June and early July, damaging crops, delaying planting, and slowing harvesting activity. Atlanta reported reduced fieldwork in many areas as a result of Tropical Storm Bill. Because of the wet weather, Richmond noted that fewer acres of soybeans will be planted and that some of the wheat crop will not be harvested. Dallas said that hail damaged cotton in the Texas Panhandle and Chicago reported damage to some crops from severe storms. Despite the damage, Chicago said corn and soybeans were generally in good-to-excellent condition. By contrast, several districts noted that the abundant spring rains had beneficial effects. The rains eased drought conditions in much of the Kansas City District, returned the soil moisture to normal levels in St. Louis, and improved crop conditions in Minneapolis. Agricultural prices were mixed. The San Francisco District noted that crop and livestock prices had remained firm and that a lower exchange value of the dollar had boosted export activity. Minneapolis and Chicago, however, reported that milk prices remained soft.

Activity in the energy industry remained strong according to reports from the Minneapolis, Kansas City, Dallas, and San Francisco districts. Minneapolis indicated that oil and natural gas exploration levels increased, while Kansas City reported that energy activity was steady in June and early July after increasing markedly during the first five months of the year. Dallas added that the level of drilling activity moved to new highs but noted that the rate of increase had slowed substantially in recent weeks, as producers tried to assess the storage situation for natural gas this summer. Kansas City reported that the end of a moratorium on new coal-bed methane drilling permits in Wyoming led to predictions of increased production of natural gas in coming months.

Return to top

First District--Boston

Business contacts in the First District are somewhat more upbeat currently (mid-July) than in the last round of information-gathering (end of May). Retailers report demand growth for a range of housing-related products, while other merchandise and tourism remain soft. Manufacturers' results are also mixed, but they note improvements in some sectors. While slowing from record highs, residential real estate markets remain strong.

Retail

Second quarter reports are mixed among retail contacts in the First District. On a comparable same-store basis, homebuilder and lumber contacts report recent improvements, with June sales up 4 to 11 percent from year-ago. Second quarter sales in the furniture sector are said to be in line with expectations for the first time this year, slightly ahead of the previous quarter. Computer product sales are reportedly down double-digits compared to year-earlier, primarily because of a slowdown in federal government orders. A department store indicates second quarter sales are about 6 percent below year-ago levels, a slight improvement from the previous quarter. Home products, cosmetics, shoes, and accessories are reportedly selling well, although apparel sales are down double-digits. Sales in the tourism sector are said to be disappointing, about in line with previous year. State budget cuts have hurt many tourism firms, leaving little to no marketing budgets to help push sales. International travel has more than doubled compared to last year, but still does not meet expectations.

The majority of retailers are holding employment levels steady, although two contacts report recent layoffs. Wage rates are mostly level among contacted firms, with one company freezing a 2 percent merit increase. Selling prices are mixed, with about half reporting decreases and the remaining half holding prices steady. Most contacts report no change in capital spending plans, but one firm is cutting spending.

Retailers anticipate slow to moderate improvements in sales in the next six months. Most contacts feel slightly more optimistic about the outlook for the economy than last time we contacted them and sense that the marketplace is more stable than in recent months.

Manufacturing and Related Services

The overall sentiment among First District manufacturing contacts was well summarized by one respondent: "Things aren't getting worse and may be getting marginally better, but it's too soon to tell." Biotech business is increasing or appears due for an increase as more new drugs are approved. A computer hardware firm notes that market conditions remain tough, but revenues are up from a year ago as corporate customers are no longer aiming to spend less than they budgeted. The aerospace market remains depressed overall, although contacts mention pickups in some pockets of their business. Some firms making consumer products, home appliances, or automotive equipment indicate that demand is weak, which will likely lead to production cutbacks and further restructuring. Changes in exchange rates have caused favorable currency translation for multinationals.

Most selling prices remain flat to down. Materials costs generally remain under control, but energy and health care costs are rising, and some firms are concerned that the depreciation of the dollar will result in higher costs for foreign purchases.

Manufacturers of health- and medical-related products are hiring, but most other respondents continue to trim their headcounts. Contacts indicate that the need to cut overhead costs is leading them to seek out locations with lower-cost or more efficient labor, introduce labor-saving technologies, or consider opportunities for consolidation and outsourcing. Most companies reporting increases in capital spending say they are motivated by the need to reduce operating costs. Some contacts indicate that they are reducing overall capital spending because of weak revenue growth or cash flow pressures.

Most manufacturers expect their business to show muted growth in the next six to twelve months. While they are generally hopeful, they remain cautious because of signs that the overall economy or particular segments remain sluggish.

Residential Real Estate

Although residential real estate markets in New England remain strong, there are a few signs of weakening. Following inventory shortages in almost every part of the region, the number of listings is beginning to build up in some areas. Most contacts still report that appropriately priced homes sell quickly, but buyers have more to select from. Bidding wars and multiple offers are now rare. Lower-priced homes continue to sell fast and contacts report lack of inventory of entry-level homes. The upper end of the market is also strong, but the middle market segment is slowing down. In Massachusetts, the number of sales in April and May was lower than a year ago, although both months were strong by historical standards. Price appreciation has been more moderate than in the past, with average sale prices remaining flat in Connecticut, Maine, and Rhode Island, and rising somewhat in Massachusetts and New Hampshire. Low interest rates continue to help spur demand throughout and contacts expect the market to remain robust as long as interest rates stay low.

Insurance

Contacts from the insurance industry report strong results in property and casualty insurance and slightly weaker demand for traditional life insurance. Most contacted executives expect continued improvement in their business over the next several quarters, reflecting long-run prospects for economic growth.

Higher prices continue to drive double-digit revenue growth rates in the property and casualty sector, even though the pace of increases began moderating in the second quarter. Despite several cases of uncollectable receivables and a few modest credit losses, companies in this sector continue to expect gradual improvement in their bottom lines. Results in traditional life insurance are less strong, as some companies are hitting the minimum interest rate floors required for some life and annuity products.

Employment among insurance contacts remains largely static, with stronger-performing firms adding modestly while others implement workforce reductions. Some companies have delayed a few capital spending projects; others continue to spend on new IT equipment and infrastructure.

Return to top

Second District--New York

The Second District's economy has seen further broad-based improvement since the last report. The labor market has continued to pick up. Retail sales improved noticeably in late June and early July, and were generally ahead of plan, with contacts attributing only part of the improvement to warmer weather. Surveys of consumer confidence showed little change in June. Manufacturing activity was mixed but generally stronger in June, and the financial sector has strengthened substantially.

Housing markets have shown further signs of strengthening in recent weeks. Office markets showed noticeable improvement in Lower Manhattan and Westchester but remained generally soft across most of the rest of the New York City metro area. Finally, bankers in the district report increased demand for home mortgage loans, but weaker demand for consumer and commercial loans, as well as tighter credit standards and a modest increase in delinquency rates on commercial loans and mortgages.

Consumer Spending

Major retail chains report that sales in the District have improved noticeably over the past few weeks and were generally ahead of plan in late June and early July. On a comparable-store basis, sales ranged from a decline of 1 percent from a year earlier to gains of roughly 5 percent. Sales of seasonal merchandise such as summer apparel, lawn and garden, cooling appliances have been particularly robust, but most contacts maintain that warmer weather does not account for all of the improvement. A number of retail chains note a marked pickup in sales of women's apparel. One large discount chain attributes some of the improvement to the recent reduction in tax withholding schedules, but most contacts do not believe this is a major factor.

Most retailers indicate continued downward pressure on selling prices and merchandise costs-primarily for apparel. Inventories are said to be mixed: while most contacts indicate that they are at satisfactory levels, one large chain expresses concern about running out of clearance merchandise, whereas another notes some overhang of soft goods.

Two separate surveys indicate little change in consumer confidence in June. The Conference Board reports that confidence in the Middle Atlantic states-New York, New Jersey, and Pennsylvania-edged down, following gains in April and May. Siena College's monthly survey of New York State residents showed confidence leveling off in June, after three consecutive gains, as continued improvement upstate offset a pullback in the New York City area.

Construction and Real Estate

The housing market has shown signs of strengthening since the last report. A contact in New Jersey's homebuilding industry reports that housing demand continues to outstrip supply. New Jersey's resale market is also reported to be picking up. One contact reports that the market has rebounded in June and early July, after a sluggish Spring, while another contact describes the market as persistently tight. A contact in the Rochester area reports brisk activity and a large volume of pending sales in the pipeline.

Manhattan's co-op and condo market has shown further signs of gaining momentum since the last report. A major realtor reports that sales have been brisk across the board in recent weeks, and that the high end of the market appears to be picking up. In contrast, the rental market remains relatively soft, in Manhattan and, especially, across the river along New Jersey's Hudson waterfront. In both areas, vacancy rates have continued to climb as a good deal of new supply has come on the market over the past year.

Office markets across metropolitan New York City, though still fairly slack, showed scattered signs of improvement in the second quarter. Office vacancy rates declined moderately in Westchester and substantially in Lower Manhattan. However, Long Island's vacancy rate edged up to a cyclical high of 15 percent, and rates in Fairfield County, Connecticut and central New Jersey continued to hover above 20 percent. One industry contact reports brisk leasing activity, but also a good deal of "shadow space"-unleased space that is either under construction or not yet listed. Effective rents are estimated to be down 25 percent from their pre-recession peaks, but are said to be leveling off.

Other Business Activity

New York City's labor market has shown further signs of a pickup. A leading employment agency reports continued improvement in hiring activity since the last report: while the market for advertising and information technology workers remains slack, hiring activity has been persistently brisk in the legal industry, and has picked up in most other sectors, including financial services (largely from hedge funds and other small financial firms). While major Wall Street firms are still not recruiting in large numbers, they are reported to be hiring more actively than in quite some time.

A financial-industry contact indicates strong improvement in the second quarter, particularly in June the fixed income segment continued to generate strong revenues, while gains were noted in other business lines across the board, and retail investor activity turned up for the first time in three years. This contact expects the securities industry to generate strong growth in compensation but little in the way of job gains this year.

The manufacturing sector has also shown further signs of improvement since the last report. In June, surveys of purchasing managers indicate improved conditions in the manufacturing sector in the New York and Rochester areas but some pullback in Buffalo. More recently, our July survey of New York State manufacturers indicates continued widespread improvement in current conditions, while an overwhelming majority of respondents remain optimistic about the six-month outlook. In general, input prices are reported to be relatively steady.

Financial Developments

Bankers at small to medium-sized Second District banks report mixed loan demand in the latest survey. Bankers report weaker demand for both consumer and commercial and industrial loans, but widespread strengthening in demand for residential mortgages; demand for commercial mortgages remained steady. Refinancing activity continued to rise, with nearly half of the bankers surveyed indicating increased activity.

On the supply side, tighter credit standards are reported for all types of loans. Interest rates fell for all categories of loans. Deposit rates also declined, with nearly nine in ten bankers reporting lower rates. Delinquency rates are reported to be up moderately for commercial loans and mortgages but little changed for consumer loans and residential mortgages.

Return to top

Third District--Philadelphia

Business activity in the Third District rose slightly in July. Manufacturers reported small increases in orders and shipments for the month after decreases in the previous three months. Retail sales of general merchandise picked up from June to July, although the year-over-year gain was marginal. Auto and light truck sales have been steady. Bank lending has been rising, with a slow advance in business lending and relatively stronger growth in consumer lending. Residential mortgage loan growth continued, but mortgage applications have begun to ease. Business at service firms has been mainly steady, although some companies have seen moderate improvement recently.

The outlook among contacts in the Third District business community is for steady or slowly improving conditions. Manufacturers forecast increases in shipments and orders during the next six months. Most of the retailers surveyed in July expect flat to slightly higher sales in the second half of this year compared with the second half of last year. Auto dealers anticipate steady sales. Bankers expect continued slow growth in lending, but they are concerned that current levels of indebtedness will become troublesome for both businesses and households if economic conditions were to deteriorate. Service companies generally expect very slow growth during the rest of the year.

Manufacturing

Manufacturers' shipments and orders were moving up in July compared with June, on balance, as demand for local firms' products rebounded after a three-month decline. The number of firms reporting gains exceeded the number reporting decreases by only a slight margin, however, and around half of the firms polled in July indicated that their shipments and orders were running at steady rates. Order backlogs at area plants have been edging up recently, overall, after having fallen during the spring. The improvement in manufacturing business conditions has not been widespread. Firms that make products used in residential construction continued to report strong demand. Printing companies have had increases in orders recently as have some makers of industrial machinery components and supplies. For most of the other major manufacturing industries in the region business has been flat or down.

Looking ahead, manufacturers in the region anticipate improvement. Over half of the firms contacted for this report expect increases in shipments and orders, and only a few expect decreases during the next six months. Manufacturers anticipate some acceleration in sales growth during the second half of this year and the first half of next year. If these expectations prove correct, area manufacturing firms plan some increases in employment beginning in the current quarter and continuing into 2003. Capital spending plans among area manufacturers call for increases, on balance, in the next six months, but several firms indicated that they were more likely to implement capacity expansion next year rather than this year.

Retail

Third District retailers generally reported that current dollar sales increased in July from June, although compared with July of last year sales were flat to only slightly up. Sales of seasonal merchandise picked up noticeably as hot weather took hold in the region, although several merchants noted that women's summer apparel had not been selling well, continuing the lackluster trend in sales of women's apparel generally. Sales of home furnishings continued to be fairly strong. Although sales have increased recently, retailers indicated that the average dollar value of purchases has slipped because shoppers have been buying fewer items and favoring lower-priced brands. Despite the increase in sales in July, retailers have stepped up discounting to clear summer merchandise ahead of the back-to-school sales season, which some stores are promoting earlier than usual this year.

Most of the retailers contacted in July do not expect the recently implemented reductions in federal income taxes to have much impact on retail sales. Several store executives said the lack of improvement in employment was a more significant, and negative, influence on consumption spending than tax cuts. Most of the retailers surveyed for this report forecast flat to slightly higher sales for the second half of this year compared with the same period a year ago.

Auto dealers reported generally steady sales in July. The sales rate has been supported by manufacturers' incentives and dealers' promotions to clear out current-year models prior to upcoming new model introductions. Dealers expect sales to continue to run at about the current pace, which would result in full-year sales in 2003 about 5 to 10 percent below sales in 2002.

Finance

Outstanding loan volume at Third District banks rose in June and July. Residential real estate lending continued to move up, although some banks reported that the rate at which they are receiving mortgage applications has eased. Consumer credit also continued to expand, and some banks that reduced personal loan rates recently have had strong gains. Credit card lending also remains on the rise. Banks contacted in July indicated they were increasing lending to businesses, although most said growth in business lending has been slow. Bank lending officers said most of their business borrowers had little need to expand operations and few were undertaking new business initiatives that required additional financing.

Most of the bankers surveyed in July expect continued, although very slow, growth in total lending through the rest of the year. They see few signs that growth in business lending will accelerate significantly, and they expect a slowing in residential lending. While most said credit quality was not currently troublesome, some said any deterioration in business conditions could adversely affect credit quality in their commercial loan portfolios, and any further decline in employment could result in a rise in consumer delinquencies.

Stock brokers and investment management companies contacted in July generally indicated that individual investors have begun to step up purchases of equities and stock funds, although the increase has been moderate. While a shift away from bonds and toward stocks appeared to be taking place, some investment managers noted that their clients continued to focus on current income and were still favoring bonds, bond funds, and annuities over equity products.

Services

Service firms contacted in July generally reported steady or slightly growing activity. Demand for information technology services and business consulting has been gaining somewhat, and some trucking firms serving the region reported moderate recent increases in activity. However, demand for general business services has been flat to barely rising. Most of the service firms surveyed expect very slow growth during the rest of the year. Nevertheless, nearly all of those queried indicated they were maintaining their planned capital spending programs for the year, and a few said they have scheduled slightly higher outlays for plant and equipment in the second half than initially planned.

Return to top

Fourth District--Cleveland

Contacts in the Fourth District reported steady or improving conditions during June and the first few weeks of July. For the second consecutive report, manufacturers reported steady or improving production and sales. Residential homebuilders reported increased activity in July over May and up to 7 percent sales increases year-over-year. Aside from a typical seasonal slowdown in July, trucking and shipping experienced increased activity. Some contacts reported hiring activity, with very few reporting any layoffs.

However, some areas of the economy experienced continued weakness. Retailers and auto dealers are experiencing continued slow sales, with auto dealers in particular experiencing activity much below the strong sales levels of 2003. Commercial builders experienced little new activity and expect current trends to continue into the next few months. Demand for commercial loans fell since the last report.

Most contacts in manufacturing, including steel, residential construction, and trucking and shipping, expect conditions to continue improving throughout the rest of the year, while contacts in commercial construction, retail, and banking were pessimistic about anticipated activity in the coming months. Overall, prices remained relatively stable in this reporting period.

Manufacturing

Manufacturing contacts reported flat to improving production and sales in June and early July, very much in-line with previous reports, with no contact reporting declines. Both sales and production were stronger in this period than in the previous months, though some contacts said levels were still down relative to last year. Inventories are down from 2002, and our sources reported idle capacity ranges from none to about 30 percent.

Though most manufacturers said they were maintaining their current workforce levels, more contacts reported hiring new workers and temporary workers than those cutting payrolls. Reports on prices, both inputs and prices charged, were mixed, though most contacts reported no change in prices. Most contacts anticipate moderate sales and production growth by year's end.

Auto production fell at most District plants in May and June, though at a lower rate than in the last report, with Districtwide production roughly 3 percent below 2002 levels. Model changeovers in early July prompted many plants in the Fourth District to schedule overtime in the weeks leading up to July 1.

Demand for steel remained unchanged from the last report, though it has increased some since last year. Demand has been high from the energy and military sectors in particular, and suppliers to these markets note robust orders with increases in production, prices, and labor forces. However, raw steel supplies continue to be high, resulting in fierce pricing competition and low profit margins. Natural gas and scrap prices rose, but the lower level of the dollar is helping sales internationally. Steel inventories have fallen since May and are down from last year's levels.

The outlook for steel production and sales was more optimistic in this report than in the last with more steel producers expecting demand to improve at a steady, yet limited rate. Should demand remain steady, sources anticipate raising prices by the end of the year.

Retail Sales

Reports were mixed from retailers, with some stating recent sales were below plan and others were on plan; comparable store sales ranged from declines of 5 percent to increases of 5 percent year-over-year. Many contacts noted deeper discounting and promotional activity. Most contacts' apparel sales have struggled over the past six weeks, and sales for Father's Day and the Fourth of July did not appear to help retailers. Items that have been selling well include cosmetics and select teenage apparel and jewelry, as well as basic items such as groceries.

Inventory levels also varied, ranging from down 15 percent to up 10 percent over last year. Vendor prices are stable along with labor activity, though a few contacts are limiting hiring and reducing payrolls, while others mention hiring a large number of temporary workers. Looking forward, most contacts are expecting 2003 sales to be flat or slightly higher than sales in 2002.

For the second report in a row, automobile dealers also noted sluggish activity throughout most of the Fourth District, with one contact noting new car sales were down 10 to 25 percent from last year. Sales continue to be very dependent on incentives. Used-car sales are doing somewhat better with consistent sales. Inventories at dealerships continue to be high with reports of 64-90-day supplies (above the 60-day supply target). Though some contacts reported an increase of showroom activity, contacts expect this slow activity to continue through the rest of 2003, resulting in total lower sales than 2002.

Construction

Homebuilders continued to report strong sales in June and early July, with contacts indicating that the Midwest has been outpacing other areas with respect to permit activity. Sales rose again from an already high level, year-over-year increases between 5 to 7 percent, reported, and customer traffic remaining strong. Aside from typical seasonal price increases, material costs remained flat.

Commercial builders, on the other hand, continued to report poor conditions similar to the past few reports, though there are a few signs of improvement. Several contacts reported that sales and customer traffic had improved significantly in June and early July, though most firms indicated that the economic environment continues to be weak, while there was some activity in the health care and public works sectors. Few new projects were reported, and some scheduled projects have delayed start dates, especially those related to public education.

Given the current economic environment, most commercial builders expect these trends to persist into the near future. Contacts stated that companies are hesitant to make major capital investments due to the economy and continuing concerns about national security. Input costs remained relatively stable, with materials prices remaining relatively the same, though some labor costs rose due to new union agreements. In recently renegotiated contracts cited by our contacts, wages will increase about four percent each year (renegotiations occur about every five years).

Trucking and Shipping

Demand for trucking and shipping has been constant since the last report, as the industry experienced steady conditions in June with a typical brief seasonal slowdown caused by manufacturing retooling in July. Shipping volumes are near 2002's levels and in-line with expectations. After holding steady since last summer, prices have begun to rise again as a result of scarce capacity in the industry. Contacts do not plan on acquiring additional equipment or drivers, as a large segment of the industry continues to experience consolidation. Demand is expected to rise in the fall although no higher than last year's levels.

Banking

Most banking contacts reported a decline in commercial loans since the June report, though demand for consumer loans has increased mainly as a result of home equity loan activity. Growth in core deposits has been mixed, as has the loan delinquency rate. Though there continued to be no change in credit standards, a few contacts maintained, as in the last report, that there is further deterioration in credit quality.

There continues to be a squeeze on net interest margins. While there was no change in the number of loan applicants, the competition for borrowers has been intense. As contacts have not seen much improvement in business and consumer confidence, few are optimistic about future activity.

Return to top

Fifth District--Richmond

Fifth District economic activity posted modest gains since our last report, as services and housing activity expanded further and manufacturing showed less weakness. Retailers reported that sales were mixed and they noted particular weakness in areas affected by manufacturing layoffs. Manufacturing showed signs of stabilizing after several months of broad-based decline, although textiles and furniture manufacturers continued to lose market share to foreign competitors. Revenues and employment in the services industry rose at a modest pace, partly because low mortgage interest rates continued to boost mortgage lending and residential real estate sales. However, low interest rates did little to boost commercial lending which continued to be lackluster. District labor markets remained generally weak, despite some reports of additional hiring in the services sector. On the price front, contacts noted that prices rose only slightly and they looked for only small increases in the months ahead. In agriculture, heavy rainfall wreaked havoc in some areas, delaying plantings and destroying crops.

Retail

Reports from retailers indicated that sales were mixed since our last report. Department stores across the District generally said sales were higher, especially for home merchandise and clothing. Sales of hardware and building supplies also rose. But sales were softer in some manufacturing-dependent areas. A central North Carolina department store manager, for example, said sales had been erratic as local textile plants extended their summer shutdowns. Automobile sales were generally steady.

Services

Fifth District services firms reported modest increases in customer demand and said that they upped hiring in recent weeks. Contacts reported that revenues at financial services businesses were firmer. In addition, continued brisk building activity led District construction firms to add to their payrolls. In northwestern North Carolina, a healthcare system reported hiring greater-than-usual numbers of newly graduated nurses, but other contacts in the region said that soft labor market conditions persisted as laid-off factory workers experienced long periods of unemployment. A professional staffing firm in northern Virginia reported increased demand from clients, especially those in telecommunications. Trucking firms in North Carolina also reported increased demand from their customers. Most District services firms continued to report only slight increases in the prices they charge.

Manufacturing

Activity in the manufacturing sector generally held steady in recent weeks. Shipments and new orders were reported to be little changed while capacity utilization and employment edged lower. But encouraging signs began to appear in the sector. Contacts in the textiles, electronics, and plastics industries noted scattered signs of strengthening demand for their products in June. In addition, a plastics manufacturer in North Carolina told us that both shipments and new orders were higher while a textile manufacturer in the state said that his company had recently experienced "two weeks of good orders." Other industry contacts, however, continued to report substantially lower sales. An apparel manufacturer in North Carolina, for example, told us shipments were 30 percent below a year ago, in part because of low priced imports from China. Furniture manufacturers also reported continued declines in shipments and increased competition from Chinese manufacturers. Although contacts reported that manufacturing raw materials prices increased at an annual rate of less than 1 percent, several District manufacturing contacts reported sharp increases in the price of natural gas.

Finance

District loan officers said that lending activity was little changed in recent weeks. Despite ticking up in the first half of July, mortgage interest rates remained low, sparking continued strong residential mortgage lending. Home mortgage refinancing also continued strong-a lender in Greenville, S.C., reported that refinancings accounted for 70 percent of his firm's lending activity in June and July. Commercial lending activity, however, remained sluggish. A banker in Charleston, W.Va., described commercial lending there as "moderate at best," not what he expected given the current level of monetary and fiscal stimulus. A counterpart in Charlottesville, Va., said lending was simply "slow" due to generally weak economic conditions. In contrast, a lender in Richmond, Va., was a little more upbeat, reporting that commercial lending had picked up in that area.

Real Estate

Residential realtors reported continued growth in home sales since our last report. An agent in Greenville, S.C., said sales in that area were "exceedingly" good, while a realtor in Richmond, Va., reported that June sales broke records at his office. A contact in Odenton, Md., reinforced the strong tone, saying that home sellers continued to receive multiple offers and that home prices had soared in recent months. In contrast, a realtor in Asheville, N.C., reported that while sales in his area were "doing well," home listings had slowed in the last few weeks. Across the District, homes in the low- to middle-price range continued to be the most active market segment.

Commercial realtors reported that leasing activity languished in June and early July. Demand for commercial space was flat across all sectors and vacancy rates were little changed. Rents were generally flat as well, although landlord concessions reemerged in the office and retail sectors. Several commercial realtors noted increased concerns about office space located near state capitols as state governments consolidated operations in response to budget shortfalls. "The health of this market depends greatly on the degree of pull-back of the state," remarked a contact in Columbia, S.C. Despite the general sluggishness, there were bright spots in some commercial real estate markets in Virginia-leasing activity picked up in northern Virginia's Prince William County and the warehouse sector was reported to be strong in Roanoke.

Tourism

Tourist activity strengthened since our last report. Hoteliers at Virginia Beach, the Outer Banks of North Carolina, and Myrtle Beach, S.C., reported stronger bookings for the Fourth of July holiday weekend compared to a year ago. Contacts attributed the increase to sunny weather and an increase in the number of families taking vacations closer to home. Mountainous areas also fared well. A manager at a mountain resort in Virginia told us that timeshare sales were 7 percent ahead of last year's pace and that his resort was booked solid for the summer. In Washington, D.C., the Fourth of July fireworks show on the National Mall attracted a particularly large crowd. Though officials did not estimate crowd size, a Metro spokesman said that 429 thousand riders passed through Metro's fare gates during the event compared to 302 thousand in 2002.

Temporary Employment

Contacts at temporary employment agencies in the District reported only modestly higher demand for workers in recent weeks. They attributed the slow growth to the continued subpar economic recovery. An agent in Richmond, Va., said that demand for temporary workers picked up over the past few weeks but added that demand was below the level of a year ago. An agent in Morrisville, N.C., said that while he had a few new customers "in the pipeline," it was difficult to predict future demand for his company's services given current economic conditions. Likewise, a Hagerstown, Md., contact was not optimistic that demand at his agency would improve, stating "the economy simply has not recovered." Wages for temporary workers generally remained steady throughout the District.

Agriculture

Heavy thunderstorms and warmer-than-normal temperatures prevailed throughout the District in recent weeks, slowing the harvesting of small grains, delaying planting activity, and damaging some crops. In Virginia, farmers reported that some double-cropped soybeans will not be planted and that some wheat fields will not be harvested because of the continued wet conditions. In North Carolina, wet weather damaged hay in some areas and drowned tobacco, soybeans, and cotton crops in others. On a brighter note, the vegetable harvest was underway in Maryland and the peach crop in South Carolina remained in good to excellent condition.

Return to top

Sixth District--Atlanta

Reports from contacts indicated that overall economic activity in the Sixth District was mixed in June and early July. There was a modest improvement in retail sales and continued strength in most single-family housing markets. A small improvement in commercial real estate was noted by some contacts. Reports from the financial sector remained generally positive. However, manufacturing activity continued to be lackluster and only a few contacts reported that they planned to increase capital spending. Early summer travel in the region fell below industry expectations in most areas. Labor markets continued to be sluggish overall. The service sector reported some employment increases, but layoffs persisted in the manufacturing sector. Contacts noted ongoing increases in the price of insurance, pharmaceuticals, and natural gas.

Consumer Spending

Reports suggested that retail sales increased modestly during June and early July in the District compared with the same time last year. Sales were largely in line with retailers' expectations and inventories were balanced and remained low in most cases. Discounting and promotional activity was widespread. Retailers were mostly optimistic about sales growth for the rest of the year but were not yet ready to increase inventory levels substantially. District auto dealers gave reports of mixed sales in June and the first part of July. Sales of domestic brands in June outpaced expectations somewhat, although sales were slightly below year-ago levels. Japanese brand distributors posted strong gains, whereas several import dealers noted disappointing sales results.

Real Estate

Single-family markets continued to perform strongly overall in June and early July. Single-family home sales continued to be driven by low interest rates according to contacts. Available reports on second-quarter commercial real estate activity noted some small improvements, principally with regard to leasing activity and net absorption. There were a few scattered reports of interest in new commercial developments in parts of the District.

Manufacturing

Manufacturing activity remained subdued in June and early July. Most reports suggested that firms remain reluctant to buy new equipment. For example, the demand for machinery repair has remained relatively strong in comparison to the weak demand for new machinery. Weakness in the aviation market has led to layoffs at an aircraft engine plant. Also, increasing natural gas prices have reportedly resulted in layoffs in Louisiana's petrochemical industry. In addition, there were reports of new closures of textile mills in the region because of foreign competition and slack product demand. More positively, suppliers to the defense industry continued to report strong order flows. For instance, shipbuilders in New Orleans reported some new military contracts. Also, a company that supplies parts for the auto industry reported increasing production levels because of the new vehicle assembly plants opening in Alabama and Mississippi.

Tourism and Business Travel

Reports on the District's hospitality and tourism sector were mixed in June and early July. In Miami, overall tourism conditions were better than the same period in 2002, but still significantly trailed pre-9/11 levels. In Orlando, a theme park cut employment levels recently because of lower-than-expected attendance. A large cruise line based in south Florida reported a recent spike in booking activity and projected a robust second half; but noted that passengers were purchasing tickets closer to sailings at reduced rates. So-called drive-to tourist destinations continued to report better performance than those relying on air traffic. Hotels catering to business travelers continued to report low occupancy levels and little improvement in recent months.

Financial

Responses from the financial sector were mostly upbeat in June and early July. Contacts reported that home related loan demand remained solid. Residential refinancing activity remained strong throughout the District. Credit union loan volumes were said to be strong, and one report noted a slight increase in commercial loan demand. Problem and past-due

loans were reportedly low and manageable. While demand for business loans continued to be weak overall, some venture capital firms were reported to be selectively considering new investment in the technology area.

Wages and Prices
Reports suggest that labor markets remained sluggish in June and early July. The service sector continued to add staff at a moderate rate, whereas layoffs in the manufacturing sector persisted. Employment growth was strongest in Florida. Business contacts noted little change in hiring plans. Some were utilizing "just in time" employment practices; hiring temporary staff and/or increasing hours to meet changing demand conditions. Price changes varied across sectors. Contacts continued to report double-digit increases in insurance and pharmaceutical costs, and several reports suggested that natural gas prices were expected to continue to increase over coming months.

Transportation
District trucking contacts reported that demand for transportation services continued to improve in June. However, higher diesel and insurance costs has squeezed profit margins for many smaller operators. The demand for new truck equipment remained quite low.

Agriculture
Tropical storm Bill saturated wide areas of the District in early July and reduced fieldwork in many areas. Plantings of corn, soybean, tobacco, and wheat are reportedly higher this growing season, whereas the cotton and peanut crops are lower than last year. According to one report, cotton growers in Georgia have planted some 50,000 fewer acres this year in the face of lower demand from local and foreign mills.

▲ Return to top

Seventh District--Chicago

Economic activity in the Seventh District remained sluggish in June and the first half of July. Contacts generally were still optimistic that the economy would pick up in coming months, though more voiced concerns that weak labor markets may constrain growth. Consumer spending was again relatively subdued, and business spending and hiring remained weak. Residential real estate activity held strong while nonresidential markets were still soft. Conditions in manufacturing improved slightly, in part due to a weaker dollar. Banks continued to report robust residential mortgage lending, but business loan volumes were again flat. Relatively soft demand and fierce competition limited upward pressure on prices, while labor costs were being pushed higher by insurance and tax increases more than by rising wages. Corn and soybean crops generally were in good-to-excellent condition.

Consumer Spending
Overall, consumer spending remained lackluster in June and early July. Many contacts suggested that consumers have become increasingly concerned about the weak job market and were maintaining tight control over their outlays. There were reports that consumers were putting off discretionary health care spending and trading down on some nonessential products, such as baby formula. Retailers reported using more and steeper discounts to help meet sales expectations. Auto dealers in the region said that new vehicle sales were relatively soft in recent weeks, and inventories were still high. Several contacts complained that manufacturers' layered incentives were confusing consumers and making it difficult to market vehicles. With weak used car prices, more dealers appeared to be sending trade-ins directly to auction rather than paying for floor planning, insurance, and repairs. Tourism held firm in many areas, and hotel occupancy rates rose in some. Contacts said that discount and economy packages were helping to boost District travel.

Business Spending
While businesses were more optimistic about the economic outlook for the second half of the year, they remained very cautious in their spending and hiring. Current capital expenditures changed little since our last report, as decisionmakers continued to take a wait-and-see attitude. One contact said that maintenance outlays were taking place, but not much capacity expansion. Firms appeared reluctant to build inventories until a sustained pickup in demand was more evident. More stringent purchasing practices (such as extensive approval processes) were also said to be hindering business spending. With few exceptions, demand for labor softened in late June and early July. Temporary help firms said that growth in billable hours was weaker entering the third quarter than at the start of the second, with year-over-year growth rates firmly negative in early July. One contact in temporary help said, "Whatever is happening in the economy right now is not creating jobs." Citing the apparent disconnect between an improvement in businesses' expectations and their actual hiring, another contact suggested that decisionmakers "no longer trust their own intuition."

Construction and Real Estate
Real estate markets remained mixed. Sales of both new and existing homes were very robust in June and early July, according to Realtors and builders. Most contacts attributed this strength to very low mortgage interest rates. Commercial real estate and construction activity was still soft. Reports from the office sector were mixed. One contact noted that property showings tailed off recently, after picking up in April and May. A large property holder in the Chicago area said that a survey completed in mid-July showed that tenants were still more likely to downsize than to expand. While there were a few isolated reports of new demand, on balance, the bulk of office leasing activity was still driven by renewals and renegotiations. Office rents continued under downward pressure. The industrial real estate market was reportedly "holding its own," even though manufacturing vacancies were increasing in some areas due to firms closing and/or relocating. Big box retail development was said to be slowing, with fewer projects in the pipeline. However, development of some types of freestanding retail space (banks, pharmacies, etc.) remained strong.

Manufacturing
Manufacturing activity improved slightly in June and early July. Automakers indicated that sales of new light vehicles were "pretty good" for the nation as a whole through mid-July, and added that June's pickup to 16.3 million units (seasonally adjusted annual rate) was partly due to stronger fleet sales. Light vehicle inventories remained elevated in mid-July. However, automakers did not necessarily view these stocks as excessive given model-year changeovers and labor contract negotiations. A major producer of heavy equipment reported that new orders edged up recently, due in part to the weaker dollar, and dealers also noted that requests for price quotes had increased over the last month. A contact with a large telecommunications equipment manufacturer said that he was seeing "decent signs of a recovery in the industry-not robust, but improving." Some small manufacturers in the District were also seeing improvements, with increases in requests for price quotes and even some new orders. Steel demand was still soft. Inventories at steel service centers were down from May, but remained on the high side. By contrast, contacts said that inventories in some other industries were so low that any new orders would have to be met by increasing production.

Banking and Finance
Lending activity was still mixed, with strong household borrowing and weak business demand. The strength in household lending was again driven by mortgage demand. New mortgage originations remained brisk with the active housing market. Many bankers said that refinancing applications retreated somewhat in July, though they remained near record levels. The benefits of refinancing were said to be limiting growth in other household loan segments, such as home equity and credit card. There was little reported change in household delinquencies and defaults, which generally were within acceptable ranges. On balance, business loan volumes were flat. However, within each market segment-small, middle-market, and large-reports on loan demand were mixed. Merger and acquisition (M&A) activity continued to pick up modestly. One contact said that banks had been looking for M&A deals, but buyers and sellers had been hesitant to get together until recently. Business loan quality was generally described as good.

Prices and Employment Costs
There was little change in the pricing environment in June and early July. Contacts generally suggested that soft demand and fierce competition left them with little pricing power, although there were a few exceptions. State universities in Michigan were raising tuitions by 9 percent to 14 percent in order to offset cuts in state appropriations as well as increases in health care and utility costs. A few manufacturers noted that output prices were firming, in part due to a weaker dollar. Wage pressures remained largely subdued, but some contacts cautioned that higher health insurance premiums, state unemployment taxes, and workers compensation costs were pushing overall labor costs higher. One large temporary help firm suggested that the "true cost of labor to a company is going up faster than in prior years, even with smaller to no merit increases." Negotiations between the United Auto Workers and automakers got under way in mid-July, and talks were expected to focus on health insurance and excess production capacity.

Agriculture
Corn and soybean acres were in good-to-excellent condition in most of the region after recent rains, although heavy storms damaged crops and flooded fields in some areas. Crop and livestock prices continued to be relatively high compared to the last several years. Nonetheless, not all farmers have been able to improve their balance sheets, in particular dairy farmers and those who have large cash rent operations. Due to very low dairy prices, many smaller operators were considering whether to shut down and pursue off-farm employment. Contacts indicated that farmers generally remained cautious and had not increased spending on equipment and capital improvements, though that might change if yield prospects turn into "crops in the bin." Farmland values rose again in the second quarter, in part reflecting lower interest rates, limited acres for sale, more of a presence by outside investors, and ongoing development. However, several bankers expressed reservations about the sustainability of current land values, especially when interest rates rise.

▲ Return to top

Eighth District--St. Louis

Economic conditions in the Eighth District showed little improvement since our last report. Manufacturing activity remains weak, and plant closings, cutbacks, and layoffs remain commonplace. Retail and auto sales were flat to down in June from last year. In the services sector, airlines continue cost-cutting efforts. Residential real estate markets are still doing well, while commercial real estate markets remain soft. Total loan demand at a sample of small and mid-sized District banks increased 2.5 percent between mid-March and early July. Crops in the District are generally in good condition.

Manufacturing and Other Business Activity
The Eighth District's manufacturing sector remains soft as plant closings, layoffs, and cutbacks continue to be announced. Manufacturers in the commercial furniture, textile, food, tool, small motor, wire and cable, apparel, packaging, and electronics industries are among those who have announced plant closings and layoffs in the District. Contacts note that problems facing the manufacturing sector include low and reduced orders, increased international competition, and an uncertain economy. Despite these concerns, a few manufacturers have announced plans to move to or expand within the District, including firms in the steel, uranium, plastic, and auto industries.

Contacts report that June retail sales were down from a year earlier, below most retailers' expectations. They note that sales of big-ticket items and durable goods in particular have been moving slowly. However, contacts note that while sales are weak, floor traffic appears to be steady. June auto sales were flat to down compared with year-ago levels. As well, most contacts report that inventories are somewhat high, and a few have noticed an increase in the rate of rejection of finance applications. The airline industry is facing the need to cut costs. One major carrier, in particular, recently announced plans to streamline operations and lay off approximately 2,000 employees in St. Louis. There are, however, a few bright spots in the services sector, as several companies are locating distribution centers in the District.

Real Estate and Construction
Home sales continue to do well in most of the District. The year-to-date increase in home sales in May was 12.5 percent in Memphis, 3.2 percent in Little Rock, and 11.0 percent in the northern Kentucky area. Residential sales are also very active in Evansville, but contacts in northwest Mississippi report that few houses are selling. May year-to-date single-family housing permits were up in most of the District's metropolitan areas compared with the same period last year. Permit levels increased 3.1 percent in Evansville, 7.3 percent in Memphis, and 3.5 percent in St. Louis.

Commercial real estate markets are still sluggish in most of the District. The second-quarter industrial vacancy rate in Louisville was 21 percent. In the Memphis area, the office vacancy rate was 15 percent and the industrial vacancy rate was 20 percent for the first quarter of 2003, both higher than the same period in 2002. Contacts do not expect any significant improvement until 2004. Commercial construction has started to pick up in most of the District, but activity has slowed down in some areas because of severe storms. Danville, Kentucky, continues to be a bright spot, where construction in colleges, hospitals, and churches is doing very well. Contacts expect a small increase in activity in Evansville, Memphis, and northeast Arkansas.

Banking and Finance
Total loans outstanding at a sample of mid-sized District banks were up by 2.5 percent between mid-March and early July this year. Loans to individuals and other commercial banks in the United States decreased by 3.0 and 29.1 percent, respectively. Real estate loans drove the overall increase, rising by 7.0 percent, while commercial and industrial loans declined 6.3 percent. Total deposits at these banks rose 3.4 percent over the same period.

Agriculture and Natural Resources
Since the heavy rains and flooding of May and early June subsided, soil moisture has returned to normal levels; across the District, soil moisture levels are rated 77 percent adequate to surplus, down from 94 percent in the middle of May. Crops across the District are generally in good condition; corn, soybeans, sorghum, winter wheat, and cotton are all rated, on average, at 50 percent or more in good to excellent condition.

Arkansas, Illinois, and Missouri have harvested most of their winter wheat, though Indiana has harvested only 55 percent. Harvesting is behind, on average, 5 percent from last year. Most of the District's soybeans have emerged, though the percentage of the crops that are blooming is down, on average, 21 percent from a year ago. As of July 8th, the share of cotton that was squaring (i.e., in its early maturing stage) was down on average 10 percent; the share of cotton that was setting bolls (i.e., in its early flowering stage) was down on average 45 percent.

▲ Return to top

Ninth District--Minneapolis

Ninth District economic activity was up slightly in June and early July. The residential real estate, consumer spending, manufacturing, energy and agriculture sectors grew, and tourism was flat. Meanwhile, commercial building and mining were down slightly, and labor markets were mixed. Overall wage and price increases were modest; however, significant price increases were noted in health care insurance, natural gas and fertilizer.

Construction and Real Estate
Overall commercial building was down, but commercial real estate activity has recently shown some signs of improvement. No major office building projects are under way in the Minneapolis-St. Paul area; however, commercial property sales have been more active recently, according to a commercial real estate firm. Leasing activity has also picked up for office, industrial and retail space during the past couple of months.

Increased commercial building activity was noted outside the Minneapolis-St. Paul area. Construction of the first new office building in about 10 years is under way in downtown Billings, Mont.; renovations and new loft apartment projects are also strong, according to a bank director. The value of permits for commercial construction projects for the first half of 2003 reached $41.2 million in Sioux Falls, S.D., up from $17.5 million during the same period a year ago, according to a city official. A bank director noted a recent increase in health care facility construction in southwestern Wisconsin.

Home building and residential real estate activity were strong. The number of permits for residential buildings was up 9 percent in June compared with a year ago in the Minneapolis-St. Paul area. The total value and the number of home sales both set records in June in Minneapolis-St. Paul; a realty association representative expects home sales to be up almost 5 percent in 2003 compared with a year earlier. The median home sale price for the Minneapolis-St. Paul area was up 6.7 percent in June compared with last year. Housing units authorized were up 12 percent compared with a year ago in Sioux Falls, S.D.

Consumer Spending and Tourism
Overall retail sales were up slightly. A major Minneapolis-based department store and discount retailer reported same-store sales in June up 0.8 percent compared with a year ago. A mall manager in North Dakota reported sales up about 5 percent in June from last year, while a mall manager in the Minneapolis area commented that June sales improved from a slow May and were above year-earlier levels. In contrast, a Minnesota-based leather product retailer noted that same-store sales were down 1.4 percent in June compared with last year. A Minneapolis area mall estimated that sales in June were down slightly from a year ago due to increased local competition.

While auto sales levels were up during the past few months compared with last year, sales have recently faced increased price competition, according to a Minnesota auto dealer.

Tourism conditions were flat. After a slow start in June, tourism activity in the Upper Peninsula in July was about the same as a year ago; softness was attributed to decreases in gift shop purchases, according to an official. Overall occupancy at large resorts and hotels during June was down from a year ago in northwestern Wisconsin, but the number of repeat visitors to small and medium-sized resorts was strong. In Minnesota, 26 percent of resorts and lodging facilities responding to a state survey expect occupancy to be up in July and August compared with last year; 37 percent expect occupancy to drop.

Manufacturing
Manufacturing activity was up slightly. A June survey of purchasing managers by Creighton University (Omaha, Neb.) indicated overall significantly increased manufacturing activity in the Dakotas and slight decreases in Minnesota. However, the survey noted increases in Minnesota new orders and production. As evidence, a Minnesota recycled plastics processor plans to open a second production line, and a lumber processing factory recently opened. A plastic plant in the Upper Peninsula plans to open a new facility next year. However, two electronic component plants in Minnesota recently shut down.

Energy and Mining
Activity in the energy sector increased, while the mining sector was down slightly. Early July district oil and natural gas exploration levels increased from late May. In addition, several wind energy farms are in development or design in the Dakotas. Meanwhile, an iron ore mine in northern Minnesota temporarily shut down due to annual maintenance. A bank director indicated that Montana mining activity was stable.

Agriculture
Agricultural economic activity increased. Crop conditions improved for most district crops, and harvest estimates increased. According to the U.S. Department of Agriculture, the majority of district crops, pastures and livestock are in good to excellent condition. For example, 82 percent and 79 percent of the Minnesota corn and soybean crops, respectively, are rated as good or excellent. The winter wheat crop harvest is under way in South Dakota, and production is expected to increase 340 percent from the drought-ravaged 2002 crop. The number of hogs and pigs in Minnesota increased 5 percent in June compared with a year earlier. Prices remain robust for many district agricultural products. However, milk prices remain depressed.

Employment, Wages, and Prices
Labor markets were mixed. About 900 state employees have been laid off so far this year in order to help erase the budget deficit in Minnesota. In Montana, a call center closing will result in 330 job losses, a lumber processor announced 139 layoffs due to a closure, and a video gaming machine manufacturer plans to cut almost 190 jobs by next year. In South Dakota, a road equipment manufacturer announced plans to close an operation and move out of state, affecting 100 jobs, while an electronics manufacturer cut over 100 jobs. The number of job vacancies in Minnesota declined 22 percent during the second quarter compared with a year ago.

In contrast, a medical technology firm announced plans to add an estimated 1,000 jobs in Minnesota. In the Bozeman, Mont., area, employment is expected to be at least steady to growing during the rest of 2003, according to a bank director. Furthermore, recent surveys point toward modest increases in overall employment. A June survey by the Minneapolis Fed of 4,400 Minnesota businesses showed that 27 percent of respondents expect to increase employment during the next six months, while 16 percent anticipate decreases. According to a survey of employers in Minnesota conducted by a staffing agency, 19 percent of respondents expect to increase employment levels in the third quarter, 12 percent anticipate decreases, and 61 percent expect no change. In the Upper Peninsula, more construction firms (62 percent vs. 38 percent) and manufacturing firms (74 percent vs. 26 percent) expect to increase employment rather than decrease employment, according to a recent survey by Northern Michigan University.

Wage increases were moderate. The Minneapolis Fed survey of Minnesota businesses showed that 86 percent of respondents expect to keep wage increases at 3 percent or lower.

Overall price increases were modest, except for significant increases in health insurance rates, natural gas and fertilizer. Several bank directors noted that prices are generally stable. South Dakota's chapter of the National Federation of Independent Businesses reported that one of four members that provide health insurance for their workers saw recent rate increases of 20 percent or more over last year. Due to increases in natural gas prices, heating bills in the Minneapolis-St. Paul area may be as much as 25 percent higher than last year. A bank director noted significant increases in fertilizer prices.

▲ Return to top

Tenth District--Kansas City

The Tenth District economy improved somewhat in June and early July. Retail sales rose slightly, manufacturing activity increased, and the pace of layoff announcements continued to ease. In addition, housing and energy activity remained strong. Commercial real estate markets, on the other hand, were still weak. In the farm economy, abundant spring rains eased drought conditions in much of the district. Most prices held steady, and wage increases remained minimal.

Consumer Spending
Retail sales in the district continued to edge higher in June and early July. The improvement pushed sales up to or above year-ago levels at most stores. Among product categories, sales of home appliances were generally strong, while furniture sales weakened somewhat. Most managers anticipate continued modest increases in sales through the fall. Managers were generally satisfied with stock levels and expect typical inventory building for the back-to-school season. Motor vehicle sales continued to improve in most of the district in June and early July, although inventories remained relatively high. Vehicle sales in Colorado, however, were quite sluggish, and some dealers there reported record-high inventories. Several contacts also reported that used car values have fallen considerably in recent months due to a glut of used vehicles on the market. Nearly all dealers were optimistic that sales of new vehicles will remain strong or improve in coming months and were not overly concerned about high inventory levels, given current low interest rates. Travel and tourism activity increased in most of the district in June and early July. Passenger traffic rose at most airports in the district, and convention business in Denver was reported to be very strong. Activity at most family destinations in the district was also solid, although wildfires in northern New Mexico were hampering travel to that area.

Manufacturing
District manufacturing activity improved somewhat in June and early July after easing in the spring. Production and new orders moved back above year-ago levels, and plants operated slightly higher levels of capacity utilization than in previous months. Both durable- and nondurable-goods producing plants shared in the increase in activity since May. In addition, factory employment levels remained largely unchanged for the second straight survey, following declines throughout the past year. On the negative side, capital spending fell somewhat further below year-ago levels. However, plans for future investment continued to edge up, as overall optimism about future factory activity remained high. Plant managers reported virtually no difficulties in obtaining materials and do not anticipate availability problems heading forward.

Real Estate and Construction
Residential real estate activity remained strong in most of the district in June and early July, while commercial real estate activity was still sluggish. Single-family housing starts continued at high levels in most district cities, with strong starts of entry-level homes making up for weak construction of upper-end homes in some markets. Builders expect the overall pace of new home construction to hold steady in coming months. Home sales continued to increase in much of the district in June and early July, although inventories of unsold homes remained higher than a year ago in many cities. Most realtors expect home sales to remain solid in coming months. Mortgage demand increased slightly and was considerably higher than a year ago throughout the district. As in past surveys, most of the demand was for refinancings. Lenders generally expect mortgage activity to remain strong in the near future. Most commercial real estate markets showed little change from the previous survey, when realtors reported some signs of stabilization. In Denver, however, realtors reported that sales and absorption of office space continued to edge down and vacancy rates rose slightly. Most realtors expect commercial real estate activity to be sluggish throughout the remainder of the year and do not expect excess office space to be fully absorbed for at least another year and a half.

Banking
Bankers report that loans held steady and deposits rose since the last survey, reducing loan-deposit ratios somewhat. Demand for home mortgage loans continued to increase, offsetting small declines in demand for consumer loans, business loans, and commercial real estate loans. On the deposit side, demand deposits, NOW accounts, and money market deposit accounts all rose slightly. Almost all respondent banks lowered their prime lending rates and consumer lending rates since the last survey. Lending standards were generally unchanged, although a few bankers expressed concern that declining used car prices were hurting credit quality by reducing collateral values on auto loans.

Energy
District energy activity held steady in June and early July after increasing markedly during the first five months of the year. From late May to mid-July, the count of active oil and gas drilling rigs in the region was virtually unchanged but still considerably higher than a year ago. Natural gas prices began to edge downward in mid-June, while oil prices have largely remained unchanged. In Wyoming, a moratorium on new coal-bed methane drilling permits was lifted in mid-July, leading to predictions of increased production of natural gas in that state in coming months.

Agriculture
In the farm economy, abundant spring rains eased drought conditions in much of the district. The spring moisture contributed to an above-average winter wheat crop and to favorable conditions for spring-planted crops. Pasture conditions have improved from last year, but most cattle producers have been unable to expand their herds. While drought conditions have eased, the arrival of hot, dry weather in July raised some concern about possible deterioration of pastures and spring-planted crops going forward. District bankers report that farmers' cash flows have been better than projected but are recovering only slowly. Livestock producers are expecting a better year due to stronger market prices and improved pasture conditions.

Wages and Prices
Wages and prices remained relatively stable in June and early July, although prices for some manufacturing materials continued to increase. Labor markets were still quite slack around the district, with most managers reporting few difficulties filling open positions, even for skilled employees. However, the pace of layoff announcements eased further in June and early July, suggesting the labor market may be turning the corner. Wage growth remained largely unchanged from the previous survey, with most firms continuing to provide no more than cost-of-living wage increases. Rising employee benefit costs continued to be a concern for many firms, and some employers said they were passing more of the cost of insurance and pensions on to employees. Retailers reported some discounting of prices to clear out seasonal items, but overall prices were virtually unchanged from the previous survey. Retail prices are expected to remain stable in coming months. Manufacturers reported little change in finished goods prices and do not anticipate much change heading forward. However, transportation and energy costs, as well as prices for some petroleum-based materials, continued to edge higher. Builders reported a slight rise in prices for some construction materials, including lumber, but no further increases are expected.

▲ Return to top

Eleventh District--Dallas

Eleventh District economic activity continued to show signs of improving in June and the first half of July, but growth remained slow. Contacts are becoming increasingly confident that the economy is expanding, but the speed of the recovery remains in doubt. Manufacturing activity was mixed, but demand for business services was expanding, albeit sluggishly. Retailers reported some pick up in demand in July, but say sales are only increasing marginally. There was little change in demand financial services or construction and real estate activity. Drilling for oil and natural gas moved to new highs in recent weeks, but the rate of increase has slowed substantially. Weather has hampered agricultural production.

Prices
Price pressures were mixed. Crude oil prices remained between $29 and $31 dollars per barrel for West Texas Intermediate since late May. U.S. crude oil inventories are still low; 11 percent below their 5-year average. Oil product prices followed crude oil prices throughout most of the period. A series of refinery outages on the Texas Gulf Coast and in California put upward pressure on wholesale gasoline prices in recent weeks. Gasoline prices are also under pressure from low inventories (roughly 5 percent below the 5-year average) and an expected strong summer driving season, as more vacationers elect to drive and not fly. Some manufacturers continued to report cost pressures related to high energy prices. For example, glass prices are up slightly. Food producers also report some upward pressure on prices, mostly due to higher input costs being passed along to consumers.

Other prices were falling. While still high, natural gas prices weakened throughout the period, as mild weather in the Midwest and North East allowed record levels of injections into storage. Storage levels remain 25 percent below last year and 15 percent below the 5-year average. Petrochemical prices have fallen with natural gas prices. Prices are lower for olefins, polyethylene, polypropylene, bottle resins, polyvinyl chloride and polystyrene. There were other reports of lower prices for manufactured products. For example, brick producers said prices were a bit softer. Apparel prices are lower and are expected to continue to decline. Prices have also fallen for paper products, despite rises in energy costs. There continues to be downward pressure on prices for primary metals, and contacts say inventories have gotten "a little big."

Several industries continue to report pressures from insurance costs, particularly in the service sector. The upward pressures appear to be subsiding for some types of insurance, but health insurance costs are still skyrocketing, and some firms say these rising costs are being passed on to employees.

Manufacturing
Manufacturing activity remains mixed. High-tech firms reported increased sales and optimism, but energy-related manufacturing activity has declined since the last Beige Book. There have been some slight increases in demand for construction-related products, but sales remain below the levels of a year ago.

Respondents in high-tech manufacturing reported a significant increase in sales and orders since the last survey. Consumer products and personal computers drove the improvement, although communications equipment also picked up. One contact noted that firms are interviewing more job candidates in preparation for future hiring. Contacts report that inventories relative to sales remain lean. Most respondents reported that the recovery is likely to continue over the next six months. One respondent noted, however, that while orders have picked-up, contracts have been shorted from a year to about three-to-four months-indicating some uncertainty about the durability of recent gains.

Demand for stone, tile, brick and glass was flat to higher over the past six weeks but below the levels of a year ago. Demand for products used in new homes was mostly unchanged, but contacts said demand has been inconsistent making it difficult to predict a trend. Demand for primary metals products was flat over the past six weeks, which was considered lackluster by contacts because demand is usually up seasonally this time of year. Sales of paper products have been slow, down 3 to 4 percent compared to a year ago. Demand for apparel products continues to be weak, while sales of food products were mostly unchanged.

Sales of fabricated metal products picked up during the past six weeks but remained below the levels of a year ago. Demand was higher for aluminum cans and construction-related metal products, particularly due to a rise in retail and industrial construction. Lumber producers also reported an increase in demand over the last couple of months, but sales are below the level of a year ago and some contracts that are already on the books are being cut down in volume.

Refinery capacity utilization on the Gulf Coast fell from the very high levels of recent months, and outages in early July pulled utilization down further. Despite high levels of gasoline imports, there was little refill of inventory in recent weeks. Weak domestic and export demand, along with high costs, have led to reductions in petrochemical production levels. High natural gas prices have pushed up costs and led to production cuts for natural gas-intensive chemicals, such as methanol, ammonia, olefins and chlorine. The gas processing industry, which thrives on high oil and low natural gas prices, has also cut production with the situation reversed. The bellwether olefin plants on the Texas Gulf Coast (ethylene, propylene) are operating at minimal levels needed to justify keeping the furnaces on.

Services
Demand for business services continues to expand, albeit sluggishly, but contacts were encouraged that the types of services demanded suggest a rebound in business activity. Legal firms reported that demand for litigation, bankruptcy and real estate work remained strong, and there is increasing demand on the corporate side, including financings and acquisitions. Contacts consider these to be optimistic signs of strengthening activity.

Accounting firms reported a slight slowing in demand over the last couple of months, which they attributed to extended deadlines under Sarbanes-Oxley. However, activity remains fairly solid across the board, particularly in audit and tax reform, and the transactional side is showing "glimmers of optimism." Transactional work is expected to slowly progress, but may open like a floodgate if the speculation about a pent-up need for investment is true. There have been a few significant increases in capital spending, mostly on upgrades in hardware and software. Demand is still very weak from the telecom industry, and one contact noted that their manufacturing clients are increasingly nervous over the rise in offshore competition. Contacts report a slowdown in receivables as more clients stretch out their payments.

Activity in temporary staffing picked-up somewhat in the second quarter compared to the first quarter, but contacts reported no significant rise in any particular sector. There continues to be little demand from large companies because most are still undergoing a lot of consolidation and restructuring. There have been more requests for proposals from the telecom, healthcare, government and education sectors, although contacts were cautious that firms may simply be looking for lower prices rather than planning to increase demand.

Airlines continued to report steady improvement, but respondents indicate that the current environment remains delicate. Capacity is down from earlier years, but airplanes are flying more passengers and revenue is rising. The trucking industry remains very competitive and there has been little change in activity or the outlook. Contacts in the rail industry report an increase in shipments compared to a year ago, particularly in the Western United States.

Retail Sales
Retailers reported mixed sales in June and a pick up in demand in July, but say sales have only increased marginally. Selling prices continue to be very competitive and falling, with some retailers reporting problems with excess inventory, particularly for women's apparel. Customers are still very price sensitive, according to contacts, and there is evidence that customers are facing problems with liquidity. One retailer noted an increase in credit card losses, particularly for long-lived accounts that had typically been very healthy. Auto sales continued to lag behind last year despite plenty of incentives from both manufacturers and dealers. Auto inventories are still high.

Financial Services
Loan demand has been mostly unchanged. Auto lending continues to soften, while mortgage activity remains stable at high levels to strong. Contacts suggest that there has been a surge in mortgage lending as customers anticipate rising mortgage interest rates and want to lock in low rates while it is still possible. One contact noted an increase in loan repayments because customers are refinancing mortgages to remove equity from the house to pay down debt. Commercial and industrial lending remained unchanged, but contacts report that their clients are seeing improvements in their balance sheets. At the same time, contacts report that problem loans are diminishing. Deposit growth remains relatively strong.

Construction and Real Estate
Overall construction and real estate activity was unchanged since the last Beige Book. Single family home building is still at moderate levels, although builders say they have little pricing power. Home sales continued to be strong for lower priced homes; one discount builder said June was his best month so far in 2003. Contacts expressed some concern about the recent upward movement in mortgage rates. Commercial real estate continued to "bump around the bottom," but contacts also noted a slight up tick in leasing activity. The increase was attributed to improved business sentiment, reduced reluctance to make decisions and the "great deals out there." Despite the bump up in leasing, contacts say they are a long way from working out excess inventory.

Energy
Drilling moved to new highs in recent weeks, but the rate of increase has slowed substantially. The dramatic slowing in activity has raised some concern that producers-unwilling to drill in earnest until every conceivable indicator was flashing green-are now pulling back some to see how the storage situation plays out for natural gas. Drilling activity in the Gulf of Mexico continues to be lower than a year ago. International activity (oil driven) remains solid, with Mexico and especially Venezuela adding to the rig count in recent months. Canadian drilling has finally picked up in a big way, apparently delayed by the pattern of thaws this year. Pricing of oil field services was described as typical of a tightening market, rather than a tight market, and still not that good.

Agriculture
Hail damaged cotton in the Texas Panhandle, and analysts expect a considerable reduction in yields. Tropical Storm Claudette brought heavy rainfall to the East Texas, Upper Coastal Bend and Rio Grande Valley regions of Texas, but conditions remain dry in other parts of the District. Harvest continues for some crops, but high production costs and moderate-to-low commodity prices remain a concern for producers. Demand for cattle remained good. Producers are carefully watching the Canadian market because a rapid re-opening of beef trade could result in increased supply and lower prices.

▲ Return to top

Twelfth District--San Francisco

Reports from Twelfth District contacts suggest that overall economic growth in the District continued to be sluggish in June through mid-July, though there were signs of slight improvement in manufacturing. Contacts indicated little upward pressure on the prices of most final goods and services, with the notable exceptions of health care services, housing, and natural gas. Employers also noted increases in energy costs and non-wage labor costs such as health insurance benefits. Contacts indicated that these rising non-wage labor costs, along with productivity gains, are expected to restrain new hiring going forward. Retailers generally characterized sales as flat compared to the previous survey period, noting heavy price discounting in a highly competitive environment. According to District manufacturers, conditions improved slightly with a strengthening of orders in information technology, basic metals (except aluminum), and machine tool manufacturing, among other sectors. Contacts reported that District housing markets remained robust, while commercial vacancy rates remained high. Low interest rates continued to stimulate the demand for mortgage credit, while demand for short-term business loans at commercial banks appears to have stabilized at low levels.

Prices and Wages
Reports indicate limited upward pressure on prices for final goods and services in the most recent survey period, with the exceptions of sharply rising prices for health care services, housing, and natural gas. Retailers continued to face intense competition, with heavy discounting commonplace. Looking ahead, across all sectors, a little less than half of respondents expected their prices to remain unchanged from current levels over the next six months. Most of the remaining respondents expected some increase in prices.

An ample supply of labor relative to demand reportedly limited increases in wages. However, employers noted pressure from rapidly rising non-wage labor costs such as health insurance benefits and, particularly in California, workers' compensation and liability insurance. Many contacts indicated the higher non-wage labor costs and productivity gains have restrained overall hiring. In addition, a few respondents indicated the higher costs prompted greater reliance on part-time employees. When asked about hiring plans over the next six months, a little over half of respondents reported payrolls would remain more or less constant. Most of the other respondents reported plans to increase hiring; these contacts were mainly in banking and high-tech and specialty manufacturing.

Retail Trade and Services
District retailers generally characterized sales as flat compared to the previous survey period, noting heavy price discounting in a highly competitive environment. Automobile dealers reported some improvement in sales in June but a slowing of sales for both new and used vehicles in July. They also reported an accumulation of inventory above desired levels.

Respondents indicated that conditions in the District's travel and tourism sector remained sluggish, with the exception of Hawaii, where domestic tourism business picked up sharply even as foreign tourism remained at historically low levels. Contacts noted scattered signs of growth in legal and real estate services as well as in high-tech services, where demand for temporary employment has edged up. Telecommunications services, however, continued to face sluggish demand and excess capacity; service providers further reduced their workforce in response to these trends.

Manufacturing
District manufacturing activity, on net, improved slightly in June through mid-July. Contacts in the information technology sector reported an increase in new orders and low inventory levels. Capacity utilization was reported to be high in the semiconductor sector, particularly for leading-edge products. Respondents observed a slight strengthening of economic activity in machine tools manufacturing, medical testing equipment, and basic metals (other than aluminum). Some District manufacturers reportedly benefited from the recent depreciation of the dollar, which made District goods more competitive at home and abroad. The higher costs of textile imports from Europe, however, were a negative for apparel manufacturing. Most of the contacted manufacturers reported plans to begin hiring over the next six months. Hiring is expected to fall, though, in the wood and paper manufacturing sector, which continues to face sluggish demand, low prices, and low operating rates.

Agriculture and Resource-related Industries
District agricultural and energy-related businesses reported solid demand during the most recent survey period. Contacts noted that crop and livestock prices have remained firm, and producers have benefited from robust export activity, due in part to the depreciation of the dollar. Natural gas prices have climbed sharply as supplies have not kept pace with demand in the short run; contacts expect prices to come back down somewhat over the next several months as the pace of extraction increases.

Real Estate and Construction
Respondents reported that residential real estate remained one of the strongest sectors of the economy throughout the District, while commercial real estate markets generally remained weak. Home sales, home prices, and new home construction all continued at a rapid pace in most areas, particularly in Hawaii and parts of Southern California. In a few areas such as the San Francisco Bay Area, home price appreciation and apartment rental rates have softened. In commercial real estate, elevated vacancy rates for commercial and industrial properties characterized most markets, notably the San Francisco Bay Area. Furthermore, there was very little commercial construction activity, except in Hawaii and Southern California.

Financial Institutions
Throughout the District, low interest rates sustained strong demand for residential real estate mortgage loans in June through mid-July. The low rates also stimulated reliance of businesses on commercial real estate credit. However, for most commercial banks, the demand for short-term business loans remained weak, apparently stabilizing at low levels as businesses continued to exercise caution in regards to investment decisions. One area of exception was Hawaii, where contacts indicated some pickup in business loans at banks. Overall, asset quality among banks was sound.

▲ Return to top