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Summary of Commentary on

Current Economic Conditions

by Federal Reserve District

November 1999

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS BY FEDERAL RESERVE DISTRICT

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TABLE OF CONTENTS

Summary i

First District - Boston I-1

Second District - New York II-1

Third District - Philadelphia III-1

Fourth District - Cleveland IV-1

Fifth District - Richmond V-1

Sixth District - Atlanta VI-1

Seventh District - Chicago VII-1

Eighth District - St. Louis VIII-1

Ninth District - Minneapolis IX-1

Tenth District - Kansas City X-1

Eleventh District - Dallas XI-1

Twelfth District - San Francisco XII-1

Summary*

Reports from most Federal Reserve Districts indicated continued moderate to strong economic growth in October and November. Growth was described as strong in the New York, Richmond, Dallas, Minneapolis, and San Francisco Districts, and moderate in the Boston, Philadelphia, and Atlanta Districts. Further growth was reported in the Chicago District but at a slower rate than earlier in the year. In the Cleveland, St. Louis, and Kansas City Districts, business conditions were little changed.

Consumer spending picked up over the Thanksgiving weekend, after being hampered by warm weather earlier in November. Manufacturing activity continued to advance in most Districts. Commercial real estate markets remained strong in most parts of the country. Home sales have slipped. Agricultural conditions were mixed, and low prices persist for grains and some other commodities. Oil and gas drilling has increased. Bank lending has declined for residential mortgages but risen for consumer loans. Lending to businesses has risen in some Districts but declined in others.

Labor markets remain tight in all Districts. The pace of wage and salary increases did not appear to be accelerating generally, although there were some reports of larger recent salary increases in some industries and regions. Prices appear to be mostly steady at the retail level. Reports from manufacturers have been mixed. Although prices of industrial goods were reported to be mostly steady in a majority of Districts, prices of some goods have been on the rise.

Consumer Spending

Retail sales slowed somewhat in most of the country in November prior to the Thanksgiving holiday. Store executives said warmer-than-normal weather in many regions resulted in slow sales of winter clothing and other seasonal merchandise. Only Boston, Richmond, and San Francisco reported strong sales continuing into the month from October. However, sales picked up significantly in most Districts over the Thanksgiving weekend, and

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*Prepared at the Federal Reserve Bank of Philadelphia based on information collected before November 30, 1999. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a representation of the views of Federal Reserve officials.

retailers expressed confidence that the brisker pace of sales will continue throughout the holiday shopping period. In Districts where merchants have made sales forecasts for the holidays, estimates of gains for this year compared to last year range from 5 to 6 percent in Philadelphia, Cleveland, and St. Louis to over 6 percent in Minneapolis. Listed as top selling merchandise are apparel (other than winter outerwear) and jewelry in Philadelphia, Richmond, and St. Louis; consumer electronics in Boston and Chicago; and furniture and home furnishings in Boston, New York, St. Louis, and Kansas City.

Auto sales slipped in November in Philadelphia, Chicago, St. Louis, Kansas City, and Dallas. Dealers in several of those Districts think the slowdown has been seasonal and that car and truck buying will pick up in January. Cleveland reported an increase in motor vehicle sales.

Manufacturing

Manufacturing activity rose in November in most Districts and capacity utilization was said to be high in St. Louis and Kansas City. Continued growth was reported in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, St. Louis, and Kansas City. In San Francisco and Dallas, growth accelerated. San Francisco manufacturers attributed the pickup to reviving foreign demand, and makers of telecommunications and computer equipment provided much of the boost in Dallas. Manufacturers in Chicago and Minneapolis indicated that production remained strong.

The advance in manufacturing activity has been broad-based. Boston reported strong demand for pharmaceuticals and instruments; Cleveland noted rising activity among steel manufacturers; Richmond indicated rising output of processed food products; and Atlanta and Dallas saw increases in production of chemicals. Other products said to be growing in demand were plastics and automotive parts (St. Louis) and furniture (Boston and Richmond). Some sectors have lagged, however. Output of industrial equipment was down in Boston and Richmond, aerospace production slowed in Philadelphia and San Francisco, and demand for textiles and apparel weakened in Richmond and Atlanta.

Real Estate and Construction

Commercial real estate markets were described as strong in most Districts, although there were some scattered indications of slowing demand for office space. Office vacancy rates were moving down in Boston and Philadelphia but rising in Atlanta and Dallas. Nonresidential construction was on the rise in Cleveland and Minneapolis, steady in Chicago and Richmond, and falling in Philadelphia. In the San Francisco District construction was described as robust in most markets except Oregon, Utah, and Arizona, where activity was down and vacancies were rising.

Residential construction activity was mixed around the nation, with more regions experiencing slowdowns than increases. Reports of declining rates of housing construction came from Philadelphia, Cleveland, St. Louis, and Chicago, and New York indicated a sharp drop. The Kansas City District reported continuing growth in homebuilding, but contractors in the District expect a slowdown in coming months. Several Districts said real estate agents noted declines in existing home sales as mortgage interest rates rose, but some agents also said sales had eased because fewer houses were being put on the market.

Agriculture

Agricultural markets still exhibit low grain prices, although there appears to be some improvement in foreign demand. San Francisco reported improved exports of some agricultural commodities, but low sales revenues for cotton, grains, and vegetables. This year's harvests of corn, soybeans, and sorghum exceeded last year's. Chicago and St. Louis noted that corn harvests were so large that storage facilities in those Districts have been inadequate.

Some agricultural commodities have been disappointing. Richmond and St. Louis indicated that cotton yields and quality declined compared with last year. Recently planted winter wheat was said to be suffering from dry soil conditions in the Cleveland, Chicago, and Dallas Districts, and in parts of the St. Louis District. However, Kansas City reported that winter wheat in that District was in good condition. Low levels of soil moisture were also said to be adversely affecting field conditions and forage generally in the Richmond, Minneapolis, and Dallas Districts.

Natural Resource Industries

Oil drilling and production have increased with the rise in oil prices. In the Minneapolis and Kansas City Districts, the increase in oil drilling was strong, but Dallas reported only a slight increase. Dallas reported greater gains in gas drilling. Metal mining was said to be running at a steady pace in the Minneapolis District.

Financial Services and Credit

Bank lending was mixed across Districts as well as within Districts. Growth in commercial and industrial loans was reported in Richmond, Atlanta, Chicago, and Kansas City but St. Louis and Dallas indicated recent slowdowns in borrowing by businesses. Commercial and industrial loans were steady in New York and Philadelphia. Mortgage lending for home purchases and refinancings generally fell in November from October. Drops were recorded in Philadelphia, Richmond, Atlanta, Chicago, St. Louis, Kansas City, and San Francisco. Dallas reported an increase. Consumer lending remained on an upward trend in most Districts. New York indicated slowing in all categories of lending except commercial and industrial loans, and Cleveland reported declines in all categories except auto loans.

Interest rate margins were said to be tightening at commercial banks in the Cleveland and St. Louis Districts. Bankers in the San Francisco District said margins remained narrow. Credit standards have remained unchanged in most Districts, although Cleveland bankers were imposing stricter conditions for consumer loans and Chicago bankers indicated that standards for commercial loans have been eased. Consumer credit quality was reported to be improving in the New York, Atlanta, and Chicago Districts. Dallas noted a rise in commercial loan delinquencies.

Employment and Wages

Tight labor markets were reported in all Districts. Workers that have been in especially high demand include high technology workers in Boston and Atlanta, carpenters in Cleveland, skilled workers in St. Louis, and entry level employees in a variety of industries in Kansas City. Stores in Boston, Philadelphia, Chicago, Minneapolis, and San Francisco said they were having difficulty finding temporary workers for the holiday shopping period.

Wage increases were described as persistent in most Districts. Reserve Banks received reports of increases ranging from 3 to 10 percent on an annual basis. Although the rate of increase did not appear to be accelerating generally, there were some reports of higher recent salary increases in some industries and regions. Richmond District employers noted substantial wage increases recently. Atlanta noted significant increases in compensation for health-care workers. The use of signing bonuses has spread, according to reports from several Districts.

Prices

Prices at the retail level have been nearly steady in most Districts, but some moderate increases were noticed in Richmond and San Francisco. Boston District retailers indicated that list prices have been steady but price markdowns have become less frequent.

Reports from goods-producing industries have been mixed. Boston and Richmond reported generally flat prices during November in the manufacturing sector. New York and Philadelphia reported increases. Other Districts indicated mostly steady prices with some increases. Products for which price increases were particularly notable included paper (Boston and Atlanta), building materials (Atlanta, Minneapolis, Kansas City, and Dallas), and chemicals (Kansas City and Dallas).

FIRST DISTRICT – BOSTON

The First District economy continues to expand at a moderate pace. Most contacts in the retail and manufacturing sectors report rising revenues and steady headcounts. While materials costs and vendor prices are generally holding steady, wages are rising and some retailers, manufacturers, and temporary employment firms are obtaining higher selling prices.

Retail

Most retail contacts report strong growth in the mid to upper single-digit range -- meeting expectations for the fall period (August through early November). While sellers of furniture, consumer electronics, and general retail (both upscale and discount) cite solid growth, a major exception is construction supply retailers who say sales have been flat on a month-to-month basis over the past four months.

Permanent employment is said to be holding steady. Seasonal hiring has been difficult because of tight labor markets, but for the most part these difficulties are not impinging on retailers' operations. Retailers report that base wages are increasing at a 4 to 7 percent rate, but performance-based incentive plans are not generally being altered in response to the tight labor market.

Both upscale and discount general retailers report some increases in selling prices; while list prices are holding steady, they are undertaking less discounting than in the recent past. As a result, profit margins are up in these sectors. Contacts selling furniture, by contrast, say that prices, costs, and margins are holding steady.

Respondents report modest plans for capital expansion over the next six months. Most contacts say that the economy is currently very strong and they expect a continuation of strong sales growth through the Christmas holiday season. Looking beyond the holiday season, retailers are cautiously optimistic, with some expecting consumer spending to moderate in the first quarter of 2000.

Manufacturing and Related Services

Most First District manufacturing contacts report that recent business is up, relative to a year ago. Revenue increases typically are in the single digits, although makers of furniture, pharmaceuticals, and specialty instruments report strong gains. Manufacturers of industrial equipment, machine tools, and basic electrical products are being hurt by sluggish demand and severe competition.

A firm that produces automotive parts and another that produces paper products report an upward blip in business attributable to Y2K. However, a provider of information systems says that customers in industries such as finance and accounting are requesting deferral of major installations until early 2000.

A majority of the manufacturers contacted indicate that materials costs are flat; a few mention having long-term contracts. Some others have experienced selective increases but express little concern because they can pass them on or offset them. By exception, a couple of firms making heavy use of paper indicate negative impacts from continuing cost increases. Many manufacturers indicate that their selling prices remain unchanged. Some firms in the paper and publishing industries note price increases, mostly modest. Makers of machinery and equipment tend to report continuing downward pressures, prompting some to give further consideration to shifting production to foreign locations.

Most respondents report steady headcounts. Many indicate that labor markets remain tight, with some contacts noting increased pay pressures or production constraints. For example, a couple of contacts indicate that turnover has increased and salary pressures are rising as a result of competition for employees on the part of Internet-related and other start-up firms. Another expects to set up a foreign operation for technical projects because of labor shortages domestically. Reported health insurance cost increases for 2000 are mostly in the double digits, higher than in recent years.

About one-third of the manufacturers contacted express optimism about revenue growth prospects in 2000. The remaining firms are more cautious and generally expect to face increasing challenges in controlling costs. Several respondents indicate that consolidation on the part of customers is likely to constrain prices and demand for their products.

Temporary Employment

First District temporary employment firms continue to expand at a brisk pace. Overall revenues have increased between 10 and 20 percent from a year ago, and one firm cites over 50 percent growth for the year. High tech workers, including e-business professionals and Internet programmers, remain in high demand with many companies looking to staffing firms to fulfill all their permanent hire needs. On a year-over-year basis, wages have grown 5 to 10 percent on average and slightly more for technical workers. Contacts report that bill rates are rising in line with wages, yielding steady profit margins. Recognizing how difficult it is to find workers in the tight labor market, clients are no longer resisting price increases. Looking forward, staffing firms in New England are optimistic; they expect a rise in computer-related projects at the beginning of next year.

Commercial Real Estate

Commercial real estate markets in New England are largely unchanged from last quarter. Boston is still very strong, with office vacancy rates around 5 to 6 percent downtown and twice as high in the suburbs. Retail and hotel markets in Boston are robust as well. The Hartford market continues to lag. Hartford office vacancy rates are three times as high as those in downtown Boston, but contacts say they are dropping slightly and rental rates are gradually rising. Other parts of New England are doing very well. As in the past, southern New Hampshire and southern Maine are closely linked to the Boston market. Burlington, Vermont, and southern Connecticut are booming. Contacts do not anticipate major changes before next spring.

Nonbank Financial Services-Insurance

Continued restructuring in the insurance industry is resulting in employment reductions at many companies. Some firms have lost jobs by selling a line of business while others report staffing reductions associated with the elimination of redundant positions following the acquisition of a unit from another company. Sales trends are mixed, with some companies reporting rising revenue and others reporting revenue declines. Some contacts say that competition has left little room for increases in premiums.

Respondents generally report upcoming annual merit salary increases in the 3 to 4 percent range. Information technology (IT) professionals remain in high demand, and are generally expected to receive larger than average merit increases or to benefit from special compensation programs. However, insurers report some indications that pressures in the IT labor market may be lessening. One contact notes that turnover rates among IT workers have dropped, another reports no compensation pressures for IT staff, and two others say they have no trouble hiring IT workers.

SECOND DISTRICT--NEW YORK

The Second District's economy continues to expand at a fairly brisk pace. Price pressures persist in manufacturing and real estate, but there are still no signs of a general acceleration in consumer price inflation. Most retailers report that November sales were well below plan for the first three weeks of November but well above plan after Thanksgiving. Pricing is said to be "very promotional" but not much different than last year; similarly, with labor shortages reported to be only slightly more severe than during last year's holiday season, retail compensation is only moderately higher than a year ago.

Housing markets in the region remain tight—particularly in the New York City area, where sluggish sales and surging prices are attributed to a shortage of homes on the market. Still, new construction activity fell markedly in both September and October—possibly hampered by labor and land constraints. Regional purchasing managers report fairly sturdy growth in manufacturing activity, along with increasingly widespread input price increases. Banks report continued declines in loan demand, a slight tightening in credit standards, and further improvement in delinquency rates.

Consumer Spending

Most retailers indicate that sales were well below plan for the first three weeks of November, but well above plan over Thanksgiving weekend. For the month overall, sales were mixed—compared to last November, changes in same-store sales ranged from down 5 percent to up 6 percent. Virtually all retailers indicate that sales of household merchandise—tableware, appliances, floor coverings, furniture, etc.—were particularly strong. On the other hand, apparel sales were uniformly sluggish, partly due to unseasonably mild weather, though there was some pickup toward the end of the month.

Merchandise prices and costs are still reported to be essentially flat. A number of contacts describe the current holiday season as "very promotional," with heavier than normal discounting this early in the season; however, most describe the current pricing environment as similar to last year's.

Retailers generally indicate that compensation (wages and bonuses) for seasonal workers has not increased significantly from a year ago; most contacts indicate that workers are in short supply but that staffing is not much more difficult than during last year's holiday season.

Separately, an annual Conference Board survey, conducted in November, indicates that the average household in the Middle Atlantic region plans to spend moderately less on holiday gifts than in last year's survey; roughly 15 percent of respondents plan to make at least one purchase over the Internet.

Construction & Real Estate

Despite tight housing markets, especially around New York City, home construction has slowed sharply. Seasonally-adjusted housing permits in New York and New Jersey fell more than 20 percent in October, on top of a 12 percent drop in September, and were down 30 percent from a year earlier; the steepest declines were in the multi-family sector. New Jersey's housing market is "a little less frenetic than it has been, " according to an industry expert, but still "tight as a drum." There are signs that construction activity is being restrained by a scarcity of both labor and usable land. With low inventories and long construction lags, builders in northern New Jersey are now reported to be doing some speculative building of houses in the $500,000-and-over price range—an "atypical" practice.

In New York State, while single-family existing home sales slipped below year-earlier levels in October, the average selling price has risen 8 percent over the past 12 months. Moreover, both the sharpest declines in unit sales and the steepest increases in selling prices were recorded in and around New York City. This is consistent with ongoing complaints from realtors of plenty of buyers but not enough sellers. Similarly, average selling prices for prime Manhattan co-ops and condominiums are reported to be up 10-15 percent from a year ago, with the steepest gains on smaller units. Similarly, a major Manhattan realtor reports a persistent shortage of rental housing, with rents running 10-20 percent higher than a year ago. Reports from other parts of the city suggest comparable increases.

Other Business Activity

Purchasing managers report steady growth in manufacturing and increasingly widespread price pressures. Buffalo-area purchasers indicate that manufacturers' new orders strengthened in October, while production activity moderated; they also report further firming in commodity prices. Rochester-area manufacturers report some improvement in general business conditions, following a slump in September, along with increasing commodity price pressures.

More currently, purchasers in the New York City area report some strengthening in business activity in November—in both the manufacturing and non-manufacturing sectors—along with persistent and broad-based increases in input prices. They also report that fourth quarter hiring intentions were the strongest since the inception of the survey in 1994.

Manhattan hotel room rates and occupancy rates rebounded in the third quarter (on a seasonally adjusted basis), after slipping modestly in the second quarter. Separately, labor markets remained fairly strong in October. Private-sector job growth accelerated noticeably in New York but slowed in New Jersey; both states registered slight declines in unemployment in October.

Financial Developments

Demand for loans continued to weaken since the last report, according to lenders at small to medium sized District banks. Demand was weak in every category except commercial and industrial loans, where it was steady. Refinancing activity continued to decline, with almost half of respondents reporting decreases and only 3 percent reporting increases. On the supply side, the vast majority of bankers indicate that they left credit standards unchanged, though a few continued to report some tightening. Interest rates increased across the board on both loans and deposits. Finally, delinquency rates continued to drop in all loan sectors—most notably in commercial and industrial loans.

THIRD DISTRICT – PHILADELPHIA

Business activity in the Third District moved up, on balance, in November, although in some sectors of the regional economy growth has slowed. Manufacturers posted gains in shipments and new orders. Retail sales remained on an upward trend, and most stores reported solid year-over-year gains for the Thanksgiving weekend. Auto sales were steady during November. Bank lending has been flat as increases in consumer credit have been offset by decreases in real estate lending and business loan volume has been level. Residential and nonresidential construction have been easing recently, but real estate agents indicated that sales of existing homes have been steady. Employment continued to grow in the region, and firms in nearly all industries have reported difficulty in meeting their needs for workers. Staffing of stores for the Christmas shopping period was described as especially problematic.

Looking ahead, business contacts in the District have mixed views, although some step-up in activity is expected overall. Manufacturers forecast increases in shipments and orders. Retailers expect sales for the holiday shopping period to exceed last year's level, and auto dealers anticipate an upturn in car and truck sales after the turn of the year. Bankers expect lending to strengthen next year as well. Construction activity may slip further, according to builders, especially for commercial office buildings, but public construction is expected to remain strong.

MANUFACTURING

Manufacturing activity in the Third District continued on an upward trend in November. On balance, industrial firms reported increases in shipments and orders during the month. Gains were common among nearly all the major goods-producing sectors in the region. Producers of construction materials indicated that spending for transportation infrastructure throughout the nation was prompting demand for their products, but some equipment makers reported drops in sales as a result of declining activity in the aerospace industry. Order backlogs at plants in the region have been steady, overall.

Manufacturers' inventories of raw materials and supplies rose slightly in November. A few firms indicated they had ordered increased quantities of critical inputs to ensure continued operation in the event of supply interruptions related to possible Y2K problems. Besides the firms that have already added to inventories, other firms indicated that they plan to boost inventories closer to the end of the year. For firms that have already added to inventories and those that plan to, the increased amounts represent around one week's supply of those inputs.

Third District manufacturers generally expect growth to continue at about its current pace during the next six months. Although some firms forecast increases in their order backlogs, most expect to be able to meet rising demand for their products without delays in filling orders. Expectations of price increases persist. Nearly half of the firms surveyed in November anticipate paying higher prices for inputs in the next six months, and one-fourth plan to raise prices for the products they make.

RETAIL

Third District merchants reported continued sales growth in November, although some stores had lower year-over-year gains for the month than they had in October. Store executives said warmer than usual weather in November damped sales of outerwear. Some stores were making early price reductions to boost sales, but most stores were maintaining their planned promotion schedules. Inventories were generally described as in line with plans, although some retailers said their supplies of merchandise were a bit below desired levels. Sales picked up over the Thanksgiving weekend, and merchants generally indicated they were on track to post year-over-year increases of around 5 percent, in current dollars, for the holidays. Toys, recorded music, jewelry, and apparel other than winter coats were the best-selling items as the Christmas shopping period began.

Auto dealers said sales have slowed recently but remain well above last year's pace. The slowdown is seasonal, according to the dealers; they expect a pickup after the year-end holidays. Inventories were said to be in line with sales, overall, but manufacturers have boosted rebates to step up sales of leftover 1999 models.

FINANCE

Loan volume outstanding at Third District banks remained level during November, according to reports from commercial bank lending officers. Some banks posted modest increases in consumer lending, mainly home equity and auto loans, but residential real estate lending eased generally at area banks. Commercial and industrial loan volume has been virtually flat, on balance, at banks in the region. Several bank lending officers said they believe many business borrowers arranged bank financing earlier than usual this year in order to avoid any delays that might occur if Y2K problems materialize. Bankers expect loan demand to pick up in January, but they do not forecast a strong increase.

REAL ESTATE AND CONSRUCTION

Commercial real estate markets remain firm in the District, although construction activity has eased. Real estate contacts reported a slight drop in commercial office vacancy rates in the region; they estimate the current rate for the Philadelphia metropolitan area at 10 percent for Class A buildings, about 2 percentage points below the year-ago rate. Rental rates have risen since the beginning of the year, but appeared to be leveling off. Commercial real estate brokers said sales and leasing activity has been strong. Construction of office buildings has slowed, and a further decline is expected in the year ahead. According to commercial brokers, recent increases in new space and renting of subleased space have brought supply and demand into balance. Public construction of buildings and roads continues at a high rate, and some real estate contacts said construction of industrial buildings was on the increase.

Residential real estate agents generally indicated that the pace of existing home sales was steady in November and above the rate set in November last year. Sales of new homes appeared to have eased. Builders continued to report that labor shortages were causing delays in construction even at the slower sales rate. Price increases, for both new and existing homes were slowing, according to realtors and builders.

FOURTH DISTRICT - CLEVELAND

General Business Conditions and Labor Markets

No major changes in District business conditions have been observed since the last report. Spending and production remain strong, and labor markets are tight. Wages are still rising a bit faster than they did during the first half of the year, but retail prices are holding steady. No significant Y2K concerns were identified.

District employment agencies reported continued high demand for temporary workers, and increasingly, firms are retaining these workers on a permanent basis. Contacts also reported strong seasonal demands for workers in customer service, production, warehousing, and distribution. Demand for seasonal help is expected to surpass last year's record levels. Although our contacts continue to express difficulty finding and retaining qualified workers, none reported an acceleration in wages from the last District report.

Union sources indicated that wage growth is edging higher in many industries (averaging just slightly above 3 ½ percent relative to a year ago.) Similarly, contacts reported significant improvements in pension benefits, which they linked to the strong performance of U.S. equity markets. Modest gains have also been made in the provision of job security for a variety of industries. These have typically taken the form of no-layoff clauses, retraining for displaced workers, and outsourcing restrictions.

Construction

Building activity in the District is still strong overall, as a rise in commercial building has largely offset a moderation in residential construction activity. Residential sales continue to slow, a trend that began in September. One residential builder reported that sales volume for the third quarter was down as much as 15 percent from the same period last year. That pattern is thought to have continued this quarter, and projections for the fourth quarter are 20 percent to 30 percent below a year ago. Still, relative to longer-term trends, the current pace of new home sales is thought to be somewhat high.

Commercial builders reported improving conditions. The construction and renovation of office space remains strong, while demand for warehouse and manufacturing space has improved markedly. Commercial builders also reported an easing in materials' cost pressures. This development has helped to improve profit margins, which had been under pressure earlier because of softening sales volume and rising material and labor costs.

Framers and carpenters remain difficult to find in the District. Lumber and drywall also remain scarce, though less so than during the summer. Despite the exceptionally tight markets for labor and materials, contractors estimate 1999 cost increases of only 3 percent to 5 percent.

Agriculture

The combination of below-average harvests resulting from the summer drought and low crop prices has resulted in substantial losses for many Fourth District farmers. More farmers than usual are rolling over this year's operating loans until next year. In southern Ohio, where the drought was worst, many farmers will enter the 2000 season in financial distress.

In northwestern Ohio, dry soil continues to be a problem for wheat farmers, and there is concern about the condition of pasturelands. Many contacts in southern Ohio and Pennsylvania are growing uneasy about low water tables, as the planting season approaches.

Kentucky's tobacco crop is predicted to be about 10 percent below last year's levels, with the same number of acres harvested. Also, recent warm weather has been detrimental to the curing of tobacco. Kentucky tobacco farmers, however, will see some relief this year as they receive settlement checks from the tobacco companies in the latter part of December.

Crop prices remain depressed, and in the last few weeks, milk prices have dropped precipitously (by about 25 percent to 30 percent). Previously, dairy farmers had been among the few farmers not under pressure from low prices.

Industrial Activity

Industrial activity in the District is good and still improving, following a mid-summer slowdown. Heavy-truck orders have come down somewhat in the past month or so, a development that one industry analyst has tied to a glut in the used-truck market. October orders were at the lowest level in three years. A major auto supplier indicated continued good orders and production numbers in October. Construction equipment manufacturing is holding steady at a somewhat low level, although a rise in export orders has been seen. Agricultural equipment orders have also seen an uptick recently.

The demand for steel in the Fourth District remains strong. As a result, steel production has picked up, and steel inventories have fallen to levels that are now considered about normal. Prices are on the rise across all products although most product prices are still well below the levels of last year. While conditions appear to be improving in this industry, District steelmakers generally reported poor third quarter earnings.

Consumer Spending

The fast-paced growth of retail sales slowed somewhat in October, but most retailers still reported that sales remained quite high and that growth had come down from phenomenal increases to merely very strong increases. The modest slowing in October might be associated with unusually mild weather in the Fourth District that damped demand for seasonal items such as apparel.

Retailers hold optimistic expectations for the Christmas season. Sales projections for the season call for gains of between 5 percent and 6 percent over last year's strong numbers. Although information at this point is still very preliminary, retailers contacted in the days following the Thanksgiving holiday reported better-than-expected sales numbers. Inventories are low for most retailers, and that has increased profits. However, retail prices remain flat.

Sales of new vehicles appear to have returned to a record pace after a slight October slowdown. Most dealers report sales were up 5 percent to 15 percent over this time last year, and year-to-date sales of new vehicles are running 5 percent to 45 percent above a year ago. Consumer demand for light trucks is especially strong, and some District dealers are worried that their inventory positions for new trucks are insufficient to meet continued strong demand.

Banking and Finance

Lending activity in the District is generally down. On the supply side, some banks are reporting that it is very difficult to attract deposits as customers increasingly rely on equity markets as a place to put savings. The result has been a rise in the loan-to-deposit ratio at District banks. Moreover, credit standards are thought to have tightened a bit in response to somewhat elevated consumer-debt loads.

Loan demand has softened in response to rate increases. One exception is automobile finance, where discount-loans have generated extremely strong demand for credit. The rate of loan delinquencies is holding at a low level for all borrowing categories, and credit quality is thought to be relatively high. Still, the spread between borrowing and lending rates is narrowing (in accordance with the observed long-term trend), and competition for borrowers is stiff.

FIFTH DISTRICT - RICHMOND

Overview: The Fifth District economy continued to advance at a solid pace in the weeks since our last report. District retailers reported stronger sales gains in both October and November and they anticipate an excellent holiday sales season. Manufacturers indicated that their new orders and shipments grew faster in recent weeks, while services providers recorded modest increases in revenues and stable employment. At financial institutions, commercial lending continued strong, but residential mortgage lending slowed further. Real estate activity grew somewhat more slowly, with the level of construction and commercial leasing remaining high. In labor markets, employment growth remained modest. Wage growth picked up in the services sector and remained high in retail, but price increases continued to be moderate in both sectors. In agriculture, harvesting was wrapping up and yields for most crops were fair to good.

Retail: District retailers reported stronger sales growth in late October and November and looked for a further pickup through the holiday season. Customer traffic was brisk in recent weeks. Moreover, a department store manager's assessment that "everyone was a buyer" summed up the assessment of many retailers. Big-ticket sales led the way in October but not in November; gift shoppers turned their attention to apparel and jewelry in more recent weeks. Retailers' inventories increased well above the normal amount in November as store managers stocked up for the holidays. Retail prices rose at a moderate rate in recent weeks and were expected to continue to rise only moderately in coming months.

Services: Revenues expanded modestly in the services sector since our last report, but within the sector, growth by industry was mixed. Contacts at health services, public utilities, and information technology firms reported that their revenues grew more quickly, while commissions at real estate and insurance firms were said to be little changed compared to last month. District airports and hotels were gearing up for strong holiday and vacation travel over the next few months -- including travel on New Year's Day. Many airlines are offering lower fares on days around the beginning of the new year, and despite potential Y2K concerns, most expect a good customer response.

Manufacturing: Manufacturing growth nudged higher in November. Shipments and new orders increased substantially in most goods-producing industries, particularly at food, tobacco, and furniture manufacturers. In contrast, textile and apparel manufacturers and industrial machinery producers continued to record sluggish sales. Although many textile manufacturers continued to attribute sluggish sales to weak demand, a textile producer in South Carolina said that his shipments fell in part because of an inability to secure skilled labor. The average manufacturing workweek rose in November after falling in October and employment rose. However, manufacturers in a few sectors, including industrial machinery and electronic equipment, continued to trim their workforces. A manager at an industrial equipment manufacturer in West Virginia attributed layoffs at his company to uncertainty surrounding the near-term future of coal mining. Turning to prices, both raw materials and finished goods prices were little changed since our last report.

Finance: District loan officers said that commercial loan demand remained strong in late October and November, while the demand for home mortgages slipped further. Generally strong overall business activity and vibrant commercial real estate markets were cited as factors contributing to solid commercial lending growth in the District. Residential mortgage lending, however, continued to be slowed by higher mortgage rates and, in a few cases, a dip in consumer optimism. A mortgage lender in Greenville, S.C., noted that the current debt loads were high for many borrowers and he suggested that mortgage lending may be slowing simply because "people don't want to go further into debt." Mortgage lenders indicated that they are scrambling for customers; in the words of a Richmond, Va., lender, his firm was "doing everything we can to make sure we aren't overlooking someone to lend to."

Real Estate: While residential real estate activity in the District was still generally reported to be strong in recent weeks, there were scattered signs of slowing growth. A Charlotte, N.C., realtor reported that customer interest in purchasing new homes had tailed off somewhat while real estate agents in several other North Carolina markets said that building permits in their areas were lower than a year ago. Realtors in Raleigh, N.C., however, continued to see lively sales, and in Rocky Mount, real estate sales rebounded after slowing earlier in the fall because of extensive flooding in the region. Virginia's real estate markets were mixed: realtors in Northern Virginia and Richmond characterized markets as strong, but some weakness was reported in the Tidewater area. In the District of Columbia, condos and co-ops were selling "exceptionally well--better than ever," according to one realtor, as young people increasingly moved into the city. In booming areas such as Frederick, Md., organizations serving low-income individuals expressed concern that housing price increases were outstripping improved income prospects, making housing less affordable for the poor.

Commercial real estate activity in the Fifth District was reported to be little changed in recent weeks. Realtors characterized commercial construction as "flat" in Virginia and the District of Columbia. One contact in D.C. told us he had seen a softening in construction by "big box retailers," and speculated that the chains may be feeling the pinch of competitors' expanding Internet sales. In Raleigh, N.C., however, there was a pick up in new commercial building activity, most of which was pre-leased. In Charleston, W.V., the commercial market has cooled; some Class A buildings planned there have not been built because they could not be pre-leased.

Tourism: Tourist activity was strong in most areas of the District in November, but remained sluggish along coastal areas. Business at mountain resorts increased notably; at a ski resort in Virginia, for example, the manager noted that sales of time-shares were up ten percent compared to a year ago. The pace of activity along the coast, however, was visibly slower as cautious travelers apparently remained concerned that accommodations were still affected in the aftermath of several hurricanes earlier this fall. A contact on the Outer Banks of North Carolina said that group bookings were down substantially--in part because of vacationers' concerns about water quality in the region.

Labor Markets: District employers reported substantial wage increases in recent weeks, but they noted that employment in most sectors rose only modestly. In retail, seasonally adjusted employment growth was flat in November because many seasonal employees were brought on board in September and October as many stores pushed their hiring forward. In recent weeks, wages rose at a quicker pace as some retailers scrambled for the remaining seasonal workers. Employment in the services sector was little changed but firms indicated strong wage growth was necessary to attract and retain workers. An owner of a small office janitorial business in North Carolina said he was forced to increase wages because, "It's getting harder and harder to muster interest in our job listings. Everyone wants to work for a big multinational or a 'tech' startup." District manufacturers reported a modest increase in both wages and employment. Temporary employment agents also said that firms offered substantially higher wages in recent weeks, particularly for computer savvy workers. Even among agencies dealing with welfare-to-work workers, job opportunities were characterized as plentiful for all but the least skilled.

Agriculture: Fair weather across most of the region enabled District farmers to make good progress harvesting crops in recent weeks. The peanut harvest was delayed in some areas because of flooded fields, but activity is now complete in Virginia and drawing to a close in the Carolinas. Good peanut yields were reported in Virginia, but yields were well below average in North Carolina. Cotton yields were also down in the Carolinas because of flooding earlier in the growing season. Despite ample rain in the eastern areas of the District, dry conditions persist in West Virginia; pastures are in poor condition in much of the state and wells are drying up in some counties.

SIXTH DISTRICT – ATLANTA

Summary: Reports from contacts throughout the Southeast indicate that the District economy continues to expand at a moderate pace. Retail sales continue to be mixed, although Thanksgiving weekend sales were generally good. The outlook for the tourism and hospitality sector remains upbeat. Single-family construction and new home sales have been flat, and the pace of District nonresidential construction is slightly ahead of a year ago but varied across the different states in the District. Overall loan demand and funds availability continue to expand at a moderate rate. While factory production has recently increased, the near-term outlook is a little less positive than before. With only a few exceptions, contacts again expect mostly stable prices for inputs and outputs. Even as tight labor markets continue to adversely impact parts of the District, reports of increasing wage pressures remain infrequent.

Consumer Spending: Sales around the District continue to be mixed during October and early November, although reports indicate that results improved slightly during early November. Most retailers said that recent sales have met their expectations; however, several merchants noted that unusually warm weather has slowed apparel sales. Most retailers continue to expect a slight increase in sales during the fourth quarter compared with last year. Preliminary reports from around the District suggest the Christmas season is off to a strong start.

Construction: The pace of single-family construction and new home sales in early November has been similar to October. Most District builders report that construction has been flat to slightly down compared with a year ago, while new home sales have declined somewhat from last year's record highs. Also, a majority of District Realtors report that home sales in October and early November have been down from last year's strong levels. The majority of both builders and Realtors report that inventories are balanced; however, there are more reports of imbalances.

The pace of District nonresidential construction is slightly ahead of a year ago but varied across the states in the District. Contacts in Florida report that while growth remains positive, activity has slowed. In Georgia, construction growth is characterized as steady as the Atlanta market experiences rising industrial and office vacancy rates. For the year, construction activity remains below year-ago levels in Alabama and Louisiana but picked up some during the third quarter. Industrial development is taking up the slack in the Tennessee commercial market as tight market conditions continue, although the office market has slowed.

Manufacturing: Factory production has recently increased, according to most contacts. However, the near-term outlook is a little less positive than before. Suppliers to the auto industry continue to expand or build new plants in the District in spite of concerns from some contacts about overcapacity. A number of chemical plants in Louisiana are expanding. The region's high-tech sector continues to grow aided by new U.S. Department of Defense contracts. Reports from the textile and apparel industry, however, are downbeat with news of declining employment rolls, decreasing factory workweeks, and plant closures as production is moved offshore. Apparel employment in Georgia, for example, is down by 3,500 workers (over 11 percent) from a year ago. A large lumber producer notes a slowdown in production, which he attributes to housing market declines. Some manufacturers are reportedly adjusting inventories down and are delaying purchases and expansions until the "New Year" because of Y2K concerns.

Tourism and Business Travel: The outlook for the tourism and hospitality sector remains upbeat. Seasonal visitors are reportedly arriving earlier than usual and in greater numbers to south Florida. The world's largest cruise ship terminal was recently dedicated in Miami, built to accommodate the largest cruise ship, the 142,000-ton Voyager of the Seas.

A decline in hotel and motel occupancy rates in theme park dominated Orlando is mostly attributed to a surge of new rooms coming on line rather than falling demand. Passenger traffic through Orlando International Airport is above that of a year ago, especially for international visitors. The recent opening of Harrah's huge land-based casino in New Orleans is expected to draw more visitors to the city.

Financial: Financial contacts report that overall loan demand and funds availability continue to expand at a moderate rate throughout the Sixth District. Consumer and automobile loan demand remain strong, and commercial loan activity is healthy. Mortgage and refinancing loan demand are subdued, while credit quality is good and bankruptcies have continued to gradually decline.

Wages and Prices: Tight labor markets continue to adversely impact parts of the District. Reports of increasing wage pressures, however, are infrequent. Some contacts say that they are still striving for efficiencies and reducing labor costs by installing labor saving devices, while others report that discretionary projects are being postponed until the year 2000. One firm reports that they are adjusting to increasing costs of hiring skilled workers by hiring less-experienced workers and utilizing apprentice-style training while on the job. Firms have reportedly been forced to find new ways to find qualified employees, such as looking for able-bodied retirees, and issuing signing bonuses and cash awards for current employees who find new employees. In addition to the long-standing trend for high-tech workers, wages for health-care workers are reportedly increasing significantly.

Contacts again expect mostly stable prices for inputs or outputs, with only a few exceptions. A plastic manufacturer sees significant price increases in his crude oil based raw materials. A paper producer notes "improving" prices. Another contact mentions that a continuing shortage of building materials is driving up prices of drywall and brick. More reports indicate increasing pharmaceutical prices.

SEVENTH DISTRICT—CHICAGO

Summary. The Seventh District's economy remained strong in October and early November but was expanding more slowly than earlier in the year. Reports on consumer spending were mixed, with contacts noting strong sales growth for the first weekend of the holiday shopping season. Construction activity generally was strong, despite softening on the residential side. Overall manufacturing output remained strong, but conditions were varied across industry segments. Lenders reported conditions similar to those noted in our last report, and contacts reported no signs of Y2K-related surges in inventory borrowing or cash demand. The District's labor markets remained much tighter than the rest of the nation and seasonal demand put additional strain on some sectors of the market. The fall harvest was complete, as was the planting of winter wheat. A survey of agricultural bankers indicated that slow farm loan repayments continued to be a problem.

Consumer spending. Reports on consumer spending activity were mixed. Prior to the Thanksgiving weekend, sales were well below most merchants' expectations. However, several District retailers reported double-digit sales gains from a year ago for the Thanksgiving weekend and most merchants expected a strong holiday sales season. Most retailers contacted cited unusually warm weather as contributing to lackluster pre-Thanksgiving sales results, especially for cold weather apparel. By contrast, sales of appliances, electronics, and lawn and garden goods had continued to be strong. Retailers reported that inventories for most goods were in line with their planned levels, but inventories of winter merchandise were high. They also noted that they had not changed their promotional activity from a year earlier. Auto dealers reported that lighter floor traffic and a slowdown in light vehicle sales continued through October and into mid-November. One large District auto group noted that service activity was also down and that used car prices weakened considerably.

Construction/real estate. Similar to our last report, overall real estate and construction activity was robust, but softer than earlier in the year. Demand for both new and existing homes continued to ease in October and early November, but most contacts described the market as strong. Those realtors contacted indicated that sales in October and early November were down about 10 percent from very strong results a year earlier. Homebuilders' reports appeared to be more positive than realtors' reports, with most contacts indicating new home sales were unchanged or down slightly. Conditions in the nonresidential sector remained strong and steady for the most part, according to contacts. Development of light industrial space was steady to down slightly, as was the development of infrastructure projects. A report from one of the District's largest metro areas suggested that a few large office projects that have recently broken ground might be the last of the current downtown office expansion. Some contractors noted that many customers have changed strategies, preferring to hire the contractor viewed as most likely to complete the job on schedule rather than going with the low bidder.

Manufacturing. The manufacturing sector generally remained strong although activity varied by industry segment. According to most automakers, orders for light vehicles remained strong nationwide. Inventories were generally in good shape, although they were reportedly lean for select models. Despite these conditions, the pricing environment remained soft with an increase in incentive spending noted by some contacts. Producers of agricultural and heavy construction equipment reported further softening in output in recent weeks, and most planned to reduce inventories further next year, although not as aggressively as this year. Contacts expected domestic demand would be relatively soft in the coming year while foreign demand was expected to pick up. Wallboard producers indicated that demand remained very strong and factories continued to run near capacity. With new capacity coming on stream, however, price increases were expected to moderate in the coming months. A large manufacturer of telecommunications equipment noted that orders continued to recover from weak sales early in the year, due in large part to strengthening demand in Asian markets.

Banking/finance. Lending activity continued to be mixed in October and early November. Business lending remained robust and most bankers suggested that growth was steady. A few contacts indicated that overall asset quality on commercial loans might have deteriorated slightly, as intense competition for customers led some lenders to relax standards slightly. Some bankers appeared to be less optimistic about the near-term commercial lending outlook than they had been in recent months. Household loan demand softened further, according to most lenders, as new mortgage and refinancing activity continued to slow. Contacts noted that asset quality on consumer loans improved as existing bank and store credit card balances were paid down, delinquencies slowed, and personal bankruptcies decreased. A contact at one large money center bank attributed this improvement to a lagged effect from strong refinancing activity earlier in the year and, as a result, did not expect the improvement to endure. None of the bankers contacted noted any unusual borrowing by businesses that would indicate an inventory buildup ahead of the year 2000 rollover, nor was there any noticeable increase in the demand for cash by consumers.

Labor markets. Labor markets in the District remained very tight in October and early November, and worker shortages appeared to intensify as the holiday hiring season began. Retailers and others who increase hiring for the holidays were finding it particularly difficult to staff positions this year. According to one contact, many traditional seasonal workers (such as students, homemakers, etc.) were already employed elsewhere, either part- or full-time, as a result of overall strength in the economy. Some retailers reportedly have gone to extraordinary lengths to attract seasonal hires by offering, among other things, increased wages, steeper in-store discounts, and even tuition reimbursement for part-time workers. Demand for workers in most other sectors remained strong as well. Temporary help firms in some metro areas reported increasing demand for manufacturing workers, while there were a few reports of slackening demand for financial services professionals, partly as a result of slowing mortgage applications. On balance, contacts suggested that overall wage pressures had not intensified further in recent weeks. Staffing services contacts indicated that wages were increasing fastest in the administrative/clerical occupations while a slowdown in wage growth was noted for information technology professionals. A contact at a large District trucking firm noted the continued shortage of drivers is especially serious during the current high seasonal demand for transporting goods. Most contacts continued to argue that worker shortages were hampering the economic expansion.

Agriculture. The fall corn and soybean harvest was essentially complete in District states. Storage space for corn and soybeans was reported to be tight in some areas, due to strong yields and a quick harvest pace that caused grain deliveries to bunch up at elevators. Winter wheat planting was finished and most of the crop had emerged, but its condition had deteriorated in some areas due to dry weather. A survey of agricultural bankers indicated that farmland values were steady to weak during the third quarter in Illinois, Indiana, and Iowa, but rose in Michigan and Wisconsin. Bankers also indicated that slow farm loan repayments continued to be a problem, and a majority believed there will be an increase in the incidence of financially stressed farmers selling assets during the fall and winter.

EIGHTH DISTRICT - ST. LOUIS

Summary

The District economy continues to operate at a high level. While there has been a reported pick-up in sales and production at manufacturers, some signs of moderate slowing in other sectors have been detected. Retail sales growth was below expectations in many instances, causing inventories to rise; warm weather was an oft-cited reason. Slowing in residential real estate markets is becoming more apparent as both sales and new construction taper off. While credit standards for all loan categories have remained unchanged, demand for C&I and residential real estate loans has dropped. Unusually warm and dry weather has hampered the germination and growth of the winter wheat crop.

Consumer Spending

District retailers report that sales in October and November were up on average between 2 and 3 percent compared with one year earlier. Nearly half reported that sales growth was below expectations and that, consequently, inventories exceeded desired levels. Home furnishings, women's apparel, and jewelry were strong sellers, while sales of electronics, appliances and other big-ticket items were flat. A warmer-than-usual fall caused sales of heavy coats, boots and other winter items to be weak. Retailers are optimistic about the holiday season, however, anticipating sales increases of between 5 and 6 percent.

Many District auto dealers report that sales have been down significantly—in some cases, by more than 10 percent—compared with the same period one year earlier. Pickup trucks and sport-utility vehicles remain the consumers' vehicles of choice. Several contacts have increased the sizes of rebates both to clear out last year's models and to help move current inventory. Almost all dealers report that inventories are at desired levels, although some truck inventories are still low. Contacts are optimistic about year-end sales. A few dealers, however, anticipate a slow start in 2000.

Manufacturing and Other Business Activity

Most District contacts report that sales and production have picked up over the past few weeks, with many plants producing at or near capacity. Several contacts, however, continue to report unmet product demand because of the ongoing shortage of qualified workers. In many cases, firms are still relying on out-of-town workers to fill positions. Persistent upward wage pressures, especially for skilled workers—such as electricians, mechanics, and carpenters—have resulted in wage increases of between 5 and 10 percent.

Robust sales growth has been reported for medical supplies, plastics and automotive parts. A recent uptick in the demand for appliances has also been noted. The trucking services industry is continuing its trend of strong growth. Toyota announced that it will hire another 500 workers at its Indiana plant to help meet the ongoing robust demand for pickups and sport-utility vehicles. Sales at farm-equipment dealers, however, have been mixed. While one dealer reported exceptional sales due to pent-up demand, another saw sales decline more than 35 percent from one year ago.

Real Estate and Construction

Most areas in the District, especially Memphis and Louisville, have seen a slowdown in home sales over the past four weeks, with many real estate agents experiencing a noticeable decline in the number of appointments to show homes. Accordingly, housing inventories have recently ticked up. Sales are also off from their year-earlier pace. Nevertheless, many agents still expect home sales in 1999 to set a new record.

Monthly residential building permits in almost all District metropolitan areas declined in September, although year-to-date they were above their year-earlier levels. Home builders report a sharp decline in both traffic and demand. The recent shortages of building materials seem to be abating, though, enabling builders to catch up on some of their backlog.

Banking and Finance

A recent survey of District senior loan officers indicates no change in credit standards for commercial and industrial (C&I) loans, commercial and residential real estate loans, consumer loans and credit cards. Some loan rate spreads (over cost of funds) have eased somewhat, though, because of increased competition. Demand for C&I loans has weakened moderately because of decreased investment in plant, equipment and inventories. Demand for residential real estate loans has also declined, while demand for consumer loans is on the rise.

Agriculture and Natural Resources

With weather conditions favorable for harvesting throughout most of October and November, the fall harvest in most areas is virtually complete. In fact, a larger-than-expected corn crop in Illinois and the Midwest has created storage problems in some areas, which has forced some grain elevators to store corn on the ground.

The planting of winter wheat is winding down, ahead of its five-year average pace in all District states. Where the crop has emerged in southern parts of the District, it is rated in good-to-excellent condition. In northern parts of the District, unusually warm and very dry weather conditions, which continue to reduce soil moisture, have hindered the winter wheat crop's germination and growth. A contact in the cotton industry reports that this year's crop has declined in both quality and yield. Despite a strong U.S. economy, domestic cotton mill consumption has weakened since last year, while foreign demand has increased.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy is entering the new millennium at full speed. Construction, real estate, energy and manufacturing industries continue to expand. Moreover, consumer spending remains strong. Also, agriculture shows some signs of improvement, with mining holding steady. Meanwhile the continued tight labor markets are generating wage pressure for several businesses. Overall prices remain level but the cost of some items is accelerating.

Construction and Real Estate

District construction remains robust, with warm fall weather extending seasonal building activity. Contracts awarded in Minnesota and the Dakotas increased by 3.3 percent for the three-month period ending in October compared to year-earlier levels. Construction employment grew 8.2 percent compared to a year earlier in Montana.

Home building continues quite strong. District housing units authorized grew by 4 percent for the three-month period ending in October compared to a year earlier. However, there may be signs of slowing in Minneapolis-St. Paul. Home-sale agreements recently softened from their vigorous pace of the past two years, according to a realtor association president. While the median price of closed sales in Minneapolis-St. Paul fell for a third-consecutive month in October, it was almost 10 percent above year-earlier levels.

Consumer Spending

Consumer spending remains steady, with optimistic reports for holiday sales. Reports for post-Thanksgiving retail sales suggest same-day store sales increased 6.5 percent over last year in Minnesota. Almost all retailers in Billings, Mont., have more merchandise on their shelves than last year in anticipation of strong holiday sales. Government payments to farmers are boosting rural Montana retail sales, according to a branch director. Retail sales at a Fargo, N.D., mall were up about 5 percent in October and store managers are optimistic about holiday sales. New car and truck registrations were up 18 percent in South Dakota for September and October compared to a year earlier, while auto sales were level in North Dakota.

Warm weather has slowed the start of winter tourism; however, inquiries and reservations are up overall compared to last year, especially in the Upper Peninsula of Michigan, and level in northern Wisconsin, according to tourism officials. The warm fall weather has stalled early ski traffic at a resort in northern Minnesota; however, reservations for the rest of the season are good. Reservations at a Montana ski resort are up 45 percent for the year.

Manufacturing

Manufacturing in the Ninth District remains strong, with many manufacturers reporting strong sales and expansion plans. A Minnesota fabricated metal firm reports tremendous growth in sales. A Minnesota electronic equipment company is having trouble meeting demand and is planning to add office and production space. A purchasing manager survey by Creighton University indicates solid improvements in the Minnesota manufacturing sector; however, the same survey reports much softer manufacturing conditions in South Dakota. Some manufacturers reported reductions in sales, including a Minnesota printing company and a computer components firm.

Mining and Energy

The metal-based mining industries remain stable, as no new district mine openings or closings were reported. August iron ore inventory levels are down 4 percent from year-ago levels.

Meanwhile, oil exploration activity remains strong. In November, 15 rigs were operating in North Dakota, two rigs in South Dakota and six rigs in Montana compared to eight, zero and six, respectively, a year ago. In addition, November oil production in the district was up 4 percent from year-ago production levels.

Agriculture

"Prospects for farm income are quite good," reports a bank director. Farmers' financial condition is starting to improve due to government payments and a good harvest. Based on preliminary results of the Ninth District's fourth quarter (November 1999) survey of agricultural credit conditions, 64 percent of respondents reported that farm income is below normal levels as compared to 73 percent of fourth quarter 1998 survey respondents. The survey also revealed that 32 percent of respondents reported below normal level of loan repayments compared to 53 percent of the fourth quarter 1998 survey respondents.

The harvest is essentially complete, with most farmers enjoying a sizable harvest, although low soil moisture has some farmers and ranchers worried. Dry and warm weather has reduced soil moisture levels across most of the district. The dry conditions have contributed to numerous pasture fires, which have burned fields in portions of Montana and the Dakotas. An exception to the dry conditions is in the Red River Valley, where extremely wet weather late in the season has reduced the Red River Valley potato crop by 40 percent.

Employment, Wages and Prices

Employers still have difficulty finding quality workers. The tight labor force has some retailers concerned about staffing for the holiday sales season. Worker availability is currently 15 to 20 percent below the perceived need at retail stores in Great Falls, Mont., according to a branch director. In construction, general contractors in Minneapolis/St. Paul continue to struggle to find workers. "Labor is the biggest factor right now," says a construction company president. Continuing labor shortages have contributed to slower growth over the past several months in North Dakota, according to a survey of purchasing managers.

Nevertheless, expansion plans are still reported. In Minneapolis-St. Paul, 44 percent of companies surveyed by a major staffing company plan to hire more workers during the first three months of 2000, while 10 percent plan reductions. A year ago 33 percent planned increases; 17 percent planned reductions. Two North Dakota Internet-commerce companies are planning to hire 250 and 100 new people respectively. A recently planned bank operations facility in Sioux Falls, S.D., could create up to 300 to 500 jobs over the next five years. In contrast, a Minnesota-based computer part manufacturer will cut 160 positions.

Employers continue to increase wages to attract and retain employees. In an informal telephone survey of companies in Minnesota, the Dakotas and Wisconsin, 18 of 23 respondents mentioned upward wage pressure. District manufacturing hourly wages increased 3.3 percent for the three-month period ending in October compared to a year earlier, which is a slightly lower rate than the 3.6 percent for the three-month period ending in July.

Overall prices remain stable with a few exceptions. In an informal telephone survey of companies in Minnesota, the Dakotas and Wisconsin, less than 50 percent of the respondents mentioned upward pressure on input prices; under 25 percent reported higher product prices. Price increases are noted in fuel, construction supplies and health care. Trucking companies in Montana report fuel costs up 10 to 12 percent.

TENTH DISTRICT - KANSAS CITY

Overview. The district economy held steady in October and early November after showing some signs of weakness in previous surveys. Manufacturers reported higher levels of activity, the construction sector remained solid, and energy activity continued a rebound that began in the spring. Retail sales declined again but are expected to be strong through the holidays. In the farm economy, the winter wheat crop was in good condition despite dry weather. Labor markets in most of the district remained very tight, but reports of wage pressures edged down from the previous survey. Retail prices were flat, while prices for some construction and manufacturing materials rose further.

Retail Sales. Retail activity in the district continued to decline, but expectations for the holiday shopping season remained strong. Some contacts suggested that warmer weather may have contributed to weaker clothing sales. Exceptions to the slower activity included gift items and home appliances. Most stores have finished building up holiday inventories, and managers expect strong seasonal sales to bring stock levels down by the end of the year. Motor vehicle sales weakened in much of the district. While the weakness was due partly to seasonal factors, sales also dropped below year-ago levels and some weakness was reported in the previously hot sport-utility vehicle market. Dealers expect slow sales to continue throughout the winter months. Availability concerns continued for some models of light trucks, with reports of some dealers traveling to Canadian auctions in search of vehicles.

Manufacturing. District factory activity improved in October and November, with most plants reporting high levels of capacity utilization. Expectations for future activity softened somewhat but remained positive. Manufacturing materials other than aluminum and electrical components remained generally available. Lead times continued to edge up, but there were few concerns about future material availability. Although efforts to trim stock levels will continue at some firms, managers remained fairly satisfied with inventories.

Housing. Builders in most parts of the district reported continued growth in housing starts, as warmer weather helped postpone the typical seasonal downturn in activity. Most builders expect slower activity over the next few months. Material availability improved again, although builders in some areas continued to have problems obtaining gypsum wallboard. Home sales were mixed across the district, with inventories of unsold homes continuing to build up in some rural areas. Mortgage demand for both home refinancings and new home purchases fell due to higher mortgage rates.

Banking. Bankers report that deposits increased somewhat more than loans over the past month, slightly reducing loan-deposit ratios. Demand increased for commercial and industrial loans, commercial real estate loans, and consumer loans. Demand fell for home mortgage loans, construction loans, and agricultural loans. On the deposit side, large time deposits, NOW accounts, and MMDAs all edged up. Most respondent banks increased their prime rate last month, and almost all remaining banks plan to raise their prime rate in the near future. Half the banks raised their consumer lending rates, and the other half expect to raise these rates in the near future. Lending standards were generally unchanged.

Energy. District energy activity continued to rise along with energy prices. The active rig count in mid-November rose to 22 percent above a year ago and 80 percent above the March low. Contacts in several energy-producing areas of the district reported that the rebound in energy activity has had a positive effect on their local economies.

Agriculture. The district's winter wheat crop is generally in good condition despite unusually dry weather, but timely rainfall is needed by next spring to replenish soil moisture and improve crop growing conditions. The dry weather has also slowed growth of pastures, but other forages are in ample supply for the winter. Crop prices remain low, holding down feed costs and boosting profits for district livestock producers. District feedlots are full and some cattle ranchers are beginning to expand their breeding herds. With improved profits in the cattle industry and big government subsidies to crop producers, district bankers expect relatively few farm loan repayment problems to surface during credit reviews this winter. Bankers report generally steady farmland values due to demand by both farmers and other investors.

Wages and Prices. Labor markets remained very tight in much of the district. Most contacts reported difficulties finding workers, particularly for entry-level positions. Building craftsmen, part-time retail and manufacturing workers, truck drivers, and corrections officers were especially scarce in some areas. Slightly fewer manufacturers and builders reported increases in wage pressures than in the previous survey, but wage pressures in the retail sector remained widespread. Retail prices were flat and are expected to stay largely unchanged during the holiday season. Prices for some manufacturing materials, such as fabrics and chemicals, increased and are expected to continue rising. Prices for construction materials also rose slightly, especially in areas experiencing supply problems. Further price increases are anticipated in these areas.

ELEVENTH DISTRICT--DALLAS

In late October and November, Eleventh District economic activity expanded at a slightly faster pace than reported in the last Beige Book. Manufacturing activity accelerated slightly. Oil services and machinery firms continued to see slight increases in demand. Demand for business services was strong and steady. Lending activity and deposit growth remained stable. Retail sales were lower than expected prior to Thanksgiving—which contacts attributed to unseasonably warm weather—but rose strongly over the Thanksgiving weekend. Construction activity was slightly slower. Agricultural conditions declined. There were a small number of reports of delayed investment activity caused by uncertainty about the Y2K date change, but contacts were also optimistic about the coming year.

Prices. Most contacts reported increased or unchanged prices. There continued to be many reports of difficulty hiring workers, but not as many reports of wage increases. An apparel manufacturer stated, "Finding workers is tough, but keeping them is more difficult." Wage increases of 6 to 8 percent were reported for skilled workers at one firm, and starting salaries were up 10 percent for all skill levels at a metals manufacturer. High-tech firms reported an increase in retention bonuses. One retail contact said seasonal hiring was not as difficult as they had feared, while another said that the rate of wage growth had declined. Prices rose for air travel, some packaging materials, bricks and petrochemicals. Although gasoline and heating oil prices followed crude oil prices upward, refiners' margins fell. Prices of business services, drilling rig rentals, primary metals and processor chips were slightly up. Business service contacts reported less resistance to fee increases. Prices held steady for grains, soybeans, apparel, autos, retail goods, memory chips, cargo shipping, paper products, lumber products, concrete and glass products. Processed food prices fell with an oversupply of beef, pork and poultry. Warm weather pushed natural gas prices lower. Fabricated metals prices declined slightly, and cement prices fell with additions to capacity.

Manufacturing. Manufacturing activity grew faster at most firms. Electrical and electronic firms reported accelerated sales growth which "exceeded expectations," boosted by strong sales of wireless products and personal computers. Most chip fabrication plants were running at close to full capacity. Petrochemical sales were boosted by strong demand in the U.S. and Asia. Sales of cement, concrete, brick, paper products, fabricated metals and most apparel products were up slightly in the past six weeks. A fabricated metals producer worried that sales were inflated by Y2K-related buildups in customer inventories, while a lumber producer said that Y2K concerns may have caused customers to delay purchases until the new year. Sales of lumber and food products were steady. Warm weather dampened sales of fleece-lined apparel. Primary metals producers reported weaker sales—possibly due to large customer inventories. Glass product sales declined, and refinery activity slowed.

Services. Demand for business services was strong and steady. Transactional, energy and high-tech sector work was strong and real estate work was steady. One contact reported that fears about Y2K problems have delayed some IPOs. Temporary services firms saw strong demand for workers from manufacturing and energy firms, and continued to see shortages of highly-skilled workers, such as those with technical and computer skills. Demand for transportation services remained steady and strong in the last six weeks. Airlines reported that October demand exceeded expectations, and Latin American travel has boosted demand. Rail cargo volumes grew at about the same pace over the past two months.

Retail Sales. Retailers reported a strong holiday weekend following generally flat November sales. Several contacts suggested that November sales growth was weaker than expected because of unseasonably warm weather, but "A good cold snap can correct all this in a big hurry." One contact noted that the pattern of sales growth was similar to last year, which ended the year with strong sales, and was cautiously optimistic that sales growth will remain strong through the holidays. Contacts reported particularly good sales growth at stores along the Texas-Mexico border. Retailers reported generally good inventory levels. Auto and truck sales slowed seasonally, but were still at high levels.

Financial Services. Lending activity and deposit growth remained stable. Auto and new home lending was strongest. Credit card lending picked up a bit while home refinancing slowed. Contacts speculated that commercial lending may have slowed somewhat because of Y2K-related holds on purchases. However, there were also some reports of slightly increased delinquencies in commercial lending.

Construction and Real Estate. There has been no pick up in speculative office construction, and office rents remained flat. In Dallas, office vacancy rates increased further as new supply outpaced demand, but commercial real estate activity picked up over the past three months. Contacts said that they expect lower apartment occupancy and rental rates in coming months, as new supply exceeds demand in some areas. Although new home sales "perked up a little" in the early part of November, they remained softer than earlier months, and were expected to decline about 10 percent next year. Contacts reported that price increases in upper-end home building were met with little resistance in some areas. Existing home sales were above last year's levels in Houston, but softer in Dallas.

Energy. Oil services and machinery firms continued to see only slight increases in demand. As in previous months, drilling activity increased but most projects required relatively little oil services and machinery to operate. U.S. drilling remained primarily directed to natural gas, with 49 of the 56 rigs added in the past six weeks drilling for natural gas. There was some increase in the number of working rigs offshore in the Gulf of Mexico, which tend to use more oil field services, but not enough to have a sizable effect on rates for rig rentals. The number of workover (maintenance) rigs in the U.S. increased at a faster rate in October.

Agriculture. Agricultural conditions worsened because of unseasonably warm and dry weather. In many areas, unfavorable forage conditions led livestock producers to increase supplemental feeding and reduce herds; some producers were reported to be close to herd liquidation. Harvest was nearing completion and crop yields were good, particularly for corn and sorghum, although prices remained relatively low. There were concerns that continued dry weather will damage the wheat crop.

TWELFTH DISTRICT – SAN FRANCISCO

Summary

Contacts reported solid expansion of economic activity in the Twelfth District during recent weeks. Further growth in consumer demand fueled rapid sales of retail merchandise and services. Due in part to improved trade conditions, District manufacturing activity expanded further, and demand and prices increased slightly for District agricultural producers. Real estate markets remained highly active, especially in California, although commercial and residential markets have cooled a bit in some regions. Financial institutions reported strong demand for credit and vigorous competition among lenders. Despite reports of labor and materials shortages in some sectors, upward pressure on wages and prices was modest overall.

Business Sentiment

District respondents remain optimistic regarding the performance of the national economy and their respective regional economies during the next four quarters. Just over half the respondents expect the growth rate of national GDP to exceed its long-run average, and a similar percentage expect the national unemployment rate to remain at or near its current level. The percentage of respondents expecting an increase in inflation also was just over half. Most respondents anticipate that growth in their region will outpace growth in the national economy during the next four quarters, with a two-thirds majority expecting further improvement in their region's outlook for international trade.

Retail Trade and Services

District contacts reported generally rapid sales of retail merchandise and services during the recent survey period. Sales of food, beverages, and pharmaceuticals exhibited solid gains in most areas. In California, department store sales of winter merchandise picked up in recent weeks, as unseasonably warm weather gave way to cooler conditions. Automobile sales reportedly slowed further in Utah during November; popular models of light trucks and sport-utility vehicles remained in short supply, but availability of previously scarce imports improved somewhat. Among services, the strongest reports were for telecommunications and Internet-related services, for which demand growth remained brisk.

Many retail and service contacts reported difficulty finding entry-level and skilled workers. Upward wage pressure was moderate on net, however, as employers relied on other incentives, such as increased merchandise discounts for seasonal employees. Reported price increases also were limited; costs have been held down by productivity enhancements at some firms, and prices more generally were restrained by vigorous competition.

Manufacturing

District manufacturing activity expanded in the recent survey period due to solid domestic demand and further improvement of trade conditions. Respondents noted stepped up demand for steel and equipment intended for use in industrial, construction, and agricultural settings. Continued growth of Asian and European demand led to strong sales growth and firming prices for makers of wood and paper products, and District producers of textiles and apparel reportedly benefitted from strong domestic demand and slightly higher prices on competing Asian imports. Demand for telecommunications and computer equipment remained strong; respondents noted some supply constraints—including a shortage of flat panel displays that has hobbled production of laptop computers—but effects on final product prices reportedly have been limited. The key source of weakness in the District manufacturing sector was aircraft manufacturing, in which orders and activity continued to fall.

Agriculture and Resource-related Industries

Conditions for District agricultural producers improved slightly during the most recent survey period. Beef producers increased the amount supplied in response to continued strong demand, and profitability has been good for producers of dairy products and nuts. Export demand and prices reportedly have risen for some agricultural commodities, although sales revenues for cotton and many grains and vegetables remained weak. District agricultural contacts reported some delays in obtaining packaging materials and transportation services but no significant supply disruptions.

Real Estate and Construction

Activity in the District construction sector and real estate markets remained at high levels, although signs of slight cooling were evident in some regions. Residential construction and sales remained rapid in the most heavily populated areas of California and Arizona. In contrast, slower residential construction activity and price appreciation were evident in Oregon and Utah, and the previously torrid pace of growth in Seattle reportedly has slowed somewhat. Activity in nonresidential markets was robust in most areas, although slower construction activity, rising vacancy rates, or both were reported for Oregon, Utah, and Arizona. Construction labor and some building materials, such as structural steel, remained in short supply, but in general contacts did not report significant increases in construction costs.

Financial Institutions

District financial institutions reported generally solid loan demand and good credit conditions. Strong demand in most loan categories was met by readily available credit, and margins were kept relatively narrow by vigorous competition for borrowers. However, contacts in several areas noted that demand for real estate loans fell a bit and the pace of mortgage refinancing slowed in recent weeks.