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Summary of Commentary on _____

Current Economic Conditions

by Federal Reserve District

June 2000

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

JUNE 2000

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Consumer Spending

Retail sales are higher in all Districts than a year ago. However, half of the Districts report a recent slowdown in the rate of growth. All four of the Districts mentioning the tourist sector (Boston, Richmond, Atlanta, Minneapolis) said that tourism spending continues to be strong. A majority of Districts said that autos and durable goods exhibited weaker sales growth and a corresponding increase in inventories for some of these big ticket items. Despite the recent slowdown, retailers in the St. Louis, Richmond, and Boston Districts remain optimistic concerning the strength of consumer demand, while retailers in the Dallas District are revising downward their earlier projections of spending growth.

Merchants in all Districts report very tight labor markets for retail workers, with corresponding pressures to increase wages in order to attract employees. Districts mentioning wage increases in the retail sector said they were in the 3 to 7 percent range, with double-digit wage growth in highly skilled occupations and among seasonal workers. Tourist-related businesses are said to be having great difficulty filling seasonal positions.

Retailers in the Boston, New York, Atlanta, Chicago, Kansas City, and San Francisco Districts say that wage inflation is not carrying over to prices. Of those, all but Chicago indicate that prices for consumer goods are mostly stable. Retailers in Chicago report that prices are rising modestly. However, retail contacts in Cleveland said that increased supply costs are being passed along, raising consumer goods prices faster than previously. By contrast, Richmond reports that price increases have eased in the retail sector.

Manufacturing

Most Districts report that overall manufacturing activity is rising. Chicago, Kansas City, and San Francisco report a slight weakening but describe conditions as “strong” or “solid.” St.

Louis indicates that business is stable at a high level.

Strong and rising demands for steel, fabricated metals, petroleum products, semiconductors, and high-tech equipment are mentioned frequently in District reports. Shortages of labor, materials, and capital are said to be constraining actual or expected output for manufacturers of these or other products in the Boston, Philadelphia, St. Louis, Minneapolis, Kansas City, and Dallas Districts. Where mentioned, exports are said to be rising across a variety of products, mostly durable goods.

Reports on the interest-sensitive automotive and construction-related sectors are mixed. Chicago and Cleveland indicate declining demand for heavy trucks. Chicago notes a slowdown in light vehicle demand (from an exceptionally high level last year); however, Atlanta reports a ramp-up in production among auto parts suppliers. Boston, Philadelphia, and Richmond cite strong demand for building components and furnishings. Dallas indicates continuing strong demand for brick and glass but declines for lumber and wood products. San Francisco indicates that lumber orders are sluggish. Cleveland and Chicago mention that public sector construction is providing a boost for some manufactured products, although Chicago also reports that orders for construction equipment are down.

Most Districts mention some evidence of increasing inflationary pressures. Prices paid for petroleum-based products, natural gas, metals, paper, and some construction materials are said to be rising. However, reports generally indicate that manufacturers are raising their selling prices less than the increase in input costs. Only Richmond explicitly states that the prices of manufactured goods accelerated in the most recent survey period, describing the increase as slight. By contrast, Chicago characterizes pricing in the manufacturing sector as soft.

Nonfinancial Services

Districts reporting on business services generally describe demand as strong within the sector although Cleveland reports a softening in the need for temporary workers. Also, demand for legal services from dot-com companies has slowed somewhat in Dallas because of weakness in financial markets and fewer IPOs. Labor markets remain tight throughout the country. For example, software and information technology service firms in Boston report high turnover rates and difficulty competing with compensation packages offered by dot-com companies in the area. Contract employment firms in both Richmond and Boston relate that clients are increasingly using their services to fill permanent positions, because of the difficulty they are having finding workers on their own.

Banking and Finance

Most Districts report either a reduction or a slowing in the growth of loan demand, especially for mortgages. Richmond and Atlanta report softening demand for commercial loans. New York, Richmond, Atlanta, Chicago, St. Louis, and Dallas note sluggish or decreased mortgage demand. New York, Richmond, and Atlanta report decreased or soft mortgage refinancing. New York, Cleveland, and St. Louis experienced slowing of demand for consumer loans. San Francisco reports “slightly weaker loan demand in some areas,” and Philadelphia notes a slowing in the rate at which loan volume was increasing. Contrary to the general tone, Chicago, Kansas City, and Dallas report strong or increasing overall loan demand; Cleveland reports strong commercial lending activity; and Atlanta reports strong consumer and home-equity loan demand.

Three Districts report that deposits are down, although New York notes an increase. There appears to be little change in credit standards since the last survey.

Construction and Real Estate

Compared to a year ago, April and May home sales were lower in more than half of the Districts. While the Richmond and St. Louis Districts report moderate slowdowns, the Kansas City District experienced a significant decline. In contrast, upstate New York had much higher sales than a year ago, and home sales in New York City declined only because of lack of inventory. The pace of residential construction was also slower in many areas. The New York District reports fewer single-family home permits in April compared to the first quarter, and sales of new homes in the Cleveland District were 5 to 10 percent lower than a year ago. By contrast, the Philadelphia and Minneapolis Districts report increased construction activity. House price changes were mixed.

Commercial real estate markets are strong, and commercial construction has escalated in many parts of the country. The Philadelphia and Cleveland Districts report new industrial construction, while the Atlanta District reports speculative office construction. Construction is also expanding in the Chicago, Minneapolis, and Kansas City Districts, but it has slowed in the Dallas District. Office vacancy rates are very low in some metropolitan areas, mainly Boston, New York City (where record low vacancy rates were reported in Manhattan), and the San Francisco Bay area. Both office and industrial space is scarce in the Richmond and Atlanta Districts. Office rental rates are increasing in Boston, Manhattan (where rents have risen at an annual rate of 35 percent so far this year), Philadelphia, and Washington, DC. Contacts in most Districts expect activity in commercial markets to continue at a high level, but predict possible further slowdowns in residential markets due to higher interest rates.

Agriculture and Natural Resources

May rains reportedly improved crop prospects in the Cleveland, Richmond, and Chicago

Districts. By contrast, drought-like conditions continued in most of the St. Louis, Kansas City, and Dallas Districts, where the dry weather damaged winter wheat and created poor forage. Pastures are also dry in Arizona and Oregon. In a few areas, scarce forage has spurred ranchers to start culling their herds. Nevertheless, the corn, soybean, and other major crops are generally described as on or ahead of schedule, and in Cleveland, St. Louis, and Minneapolis, they are in good-to-excellent condition. Surveys in several Districts indicate that farmers' financial conditions have improved, with gains in farm values and incomes and debt repayments. Contacts in Kansas City and San Francisco noted that crop prices remain low, while those in Minneapolis and San Francisco mentioned rising wages or turnover for farm labor.

Activity in the energy sector has improved. Atlanta, Minneapolis, Kansas City, and Dallas all cite sharply increased rig counts in response to low inventories, strong demand, and higher energy prices. With natural gas prices up over 50 percent year-on-year and forecast to rise, Dallas reports that gas is leading the sector's recovery and that drilling in the Gulf of Mexico is at late 1997 peaks. In Atlanta and Dallas, contacts note that the energy sector is having trouble hiring. The iron ore and platinum industries in the Minneapolis District are operating near capacity.

FIRST DISTRICT – BOSTON

Economic activity in the First District continues at a high level. Almost all of the New England businesses contacted this time have seen increases in revenues or sales from a year earlier, although some cite signs of slower growth. Price inflation remains limited. Contacts are unanimous in saying that labor markets are tight; while increases in base wages for most employees remain in the 2 to 5 percent range, technical personnel and others in short supply are seeing bigger raises.

Retail

Most retail contacts say that sales growth continues to exceed expectations. By exception, however, respondents in the discount retail sector report sales below last year, while a graphic supply firm indicates sales growth slowed in the last month.

Most respondents report steady employment levels, although a lumber yard and contacts in the tourist industry are seeing employment levels erode because job leavers are running ahead of new hires. All contacts say that hiring is increasingly difficult because of very tight labor market conditions. Most merchants continue to report wage increases in the 3 to 5 percent range. However, in the tourist industry, wage offers to seasonal help are said to be running 20 to 30 percent above normal levels.

Most respondents say retail prices are generally holding steady. By exception, one sector is raising prices less than 4 percent and hotel room rates are increasing at a 5 to 7 percent pace. Profit margins are said to be holding steady, with non-labor cost efficiencies offsetting wage inflation.

Merchants contacted this time plan only modest expansions of operations over the next few months. Respondents expect relatively strong economic growth to continue through the remainder of 2000. Construction material suppliers, for example, report that building contractors do not expect interest rate hikes to affect their businesses until late in the year.

Manufacturing and Related Services

First District manufacturing contacts report that recent business is up relative to a year earlier. About one-half of this month's respondents are experiencing low single-digit revenue growth, with the remaining half experiencing faster growth. The strongest areas are integrated circuits, furniture, construction-related products, small aircraft, publishing, biotech, and medical equipment. Companies

reporting sluggish sales include makers of machinery, paper, defense hardware, and products for use by the oil and gas industry.

Materials costs are largely flat, although some manufacturers mention increases for fuel and other oil-based products, pulp and paper, wood, and metals. Selling prices are mostly flat, although there are scattered reports of modestly higher prices. Respondents from the paper, printing, and some non-consumer goods industries indicate that their margins are under pressure as a result of intense competition and their customers' price-sensitivity or Internet-based purchasing.

About three-quarters of the contacted manufacturers report that employment levels are flat or down slightly; the remainder report single-digit increases. Most contacts are not increasing their capital expenditures this year, in part reflecting heavy past investments. Two-thirds of the firms report average pay increases in the range of 2 to 4 percent. Those reporting greater average pay increases (of up to 10 percent) tend to make intensive use of technical personnel or be located in areas of extremely low unemployment. Some companies with modest wage and salary growth report paying sharply higher rates for health coverage. Most contacts categorize labor markets as very tight and indicate they are having difficulties filling vacancies. Sales, engineering and science, information technology, and entry-level manufacturing positions are reported to be particularly challenging to fill.

Most manufacturers are at least cautiously optimistic about their business prospects, especially those developing new products. About half of the respondents believe their revenue growth may be constrained this year because of shortages of labor or plant capacity. In addition, many mention that rising interest rates pose downside business risks or added costs.

Software and Information Technology Services

This is the first report incorporating material from conversations with firms producing software and information technology services. Most contacts say revenue growth is strong this year to date. However, some cite decreased demand for their products due to factors associated with the particular markets they serve, and some cite a temporary drop in demand earlier this year due to heavy spending on Y2K-related activities late last year. Both groups report that they continue to spend heavily on new product development, and often cite the need to keep up with changing technology.

Most respondents are increasing employment, although some report small decreases. Many contacts indicate that high turnover is a problem, especially among younger employees. However, turnover rates generally seem to be stable. Respondents at established software companies report difficulties in competing with the compensation packages offered by "dot coms." Average salary increases at most companies are in the 6 to 10 percent range. Salary increases tend to be higher for technical employees than for non-technical employees, and higher at firms located close to Boston.

Temporary Employment

Expansion at First District contract employment firms continues, with overall revenues about 20 percent higher than year-earlier values. Most contacts are increasing their focus on the Internet for "e-recruiting." Contacts also report increased use of their services to transition temporary hires into permanent employees; client companies are able to "test drive" these workers and then recruit them for long-term positions. Recent college graduates are providing a temporary inflow of new help into a very tight labor market, but according to one source, "most students were hired even before they left their schools." Wages are up 5 to 10 percent from year-earlier, and Internet workers are receiving even greater increases. Prices are rising in line with wages, with no resistance from clients. "They have no choice. As long as you can provide quality, companies will pay anything." Staffing firms retain a very upbeat outlook.

Commercial Real Estate

Commercial real estate markets in New England are doing well. The Boston area continues to be exceptional. Vacancy rates in the downtown office market are extremely low and suburban demand has been spurred by companies leaving the more expensive downtown area. High demand coupled with lack of new construction has created "tremendous" pressure on downtown rental rates. Rental rates in the suburbs have also increased somewhat. Contacts anticipate a slight increase in vacancy rates in the next two years, after some new office construction is completed.

Hartford contacts report high levels of activity and a gradual decline in office vacancy rates, which are now around 14 percent. In Rhode Island, new construction is planned in suburban Providence, where office vacancy rates are low. Rental rates have increased somewhat in downtown Providence, while holding steady in the suburbs. Maine contacts report unchanged vacancy and rental rates in the office market and a weak retail market, with several empty stores in downtown Portland.

SECOND DISTRICT--NEW YORK

Most sectors of the Second District's economy have continued to grow at a sturdy pace in recent weeks, led by real estate and construction. Housing markets in upstate New York appear to be strengthening; in the New York City area, home prices continue to appreciate rapidly, and builders are struggling to keep up with demand, as construction workers are in short supply. A shortage of office space in New York City appears to be driving a further acceleration in commercial rents. Regional purchasing managers report some strengthening in manufacturing activity in May.

In contrast, retailers report that sales were sluggish last month, with a pickup in early May followed by substantial weakening in the second half of the month—weather was cited as a major factor. Retail prices, merchandise costs, and wages were characterized as stable, with anticipated hikes in transportation costs expected to have little if any effect on final prices. Finally, bankers report some slackening in loan demand, along with further improvement in delinquency rates.

Consumer Spending

Most retailers report that consumer spending picked up in early May, coinciding with a heatwave, but fell back below plan in the second half of the month, as unseasonably cool weather returned. For the month, sales were on or below plan, with year-over-year changes in comparable-store sales ranging from down 2 percent to up 7 percent. Some retailers also believe that increased competition may have detracted slightly from their sales recently, as a national chain expanded its presence in the New York City metropolitan area, opening 20 new stores in the past four months.

Almost all retail contacts noted weak sales of apparel—especially women's apparel. However, sales of home goods were mixed: some contacts indicate continued strength, but others have seen some softening. One contact reports that sales of air conditioners were up threefold in May, compared with a year earlier, despite the cool weather in the final two weeks.

For the most part, contacts report that inventories are generally at satisfactory levels; however, some report an overhang of summer apparel, and plan to offer sizable discounts. In general, selling prices and merchandise costs are little changed. Rising fuel costs have yet to affect retailers' transportation costs, because of contractual obligations. While most contacts anticipate a jump in shipping costs in the months ahead, the impact on overall costs is described as small, and is not expected to be passed through to consumer prices.

Construction & Real Estate

The housing shortage in and around New York City shows no signs of letting up, while, in upstate New York, housing demand finally appears to be gaining steam. In Buffalo, for example, realtors indicate that market conditions have clearly strengthened—primarily at the middle to upper end of the market—and that homes are selling quickly, often with multiple offers and sometimes above the asking price. While the average selling price, compiled by local realtors, has reportedly declined over the past year, this statistic may be understating actual price trends, as a sizable backlog of distressed properties have been sold off this year. More generally, year-to-date unit sales in upstate areas such as Buffalo, Rochester, and Albany, are running well ahead of 1999 levels. Meanwhile, realtors in the New York City area continue to bemoan a lack of inventory—particularly at the upper end of the market. This is consistent with local sales data, which indicate a decline in the number of homes sold but a steep increase in the median selling price.

Construction statistics suggest that supply is struggling to keep pace with demand. On a seasonally-adjusted basis, single-family permits in New York and New Jersey retreated in April, following an uncharacteristically strong first quarter. However, multi-family permits soared again in April, led by another wave of apartment projects in New York City. Year-to-date, single family permits are off about 6 percent from comparable 1999 levels, but multi-family permits are up 55 percent.

Anecdotally, New Jersey homebuilders say the market is still “dominated by inventory shortage”; they cannot put up homes fast enough, as pre-built sales are out-running current levels of production. While builders report no problems in obtaining materials, they are hampered by a severe shortage of skilled trade workers, but note that this shortage would be far worse if not for a heavy influx of immigrant workers. Wages in these occupations are said to be running nearly 10 percent higher than a year ago.

New York City's office market tightened further during April, with leasing activity described as “frenetic”. Midtown Manhattan's office availability rate—space that is vacant or coming available within 12 months—tumbled to a new low of 4.2 percent, from 4.9 percent at the end of March and 7.7 percent a year ago. Similarly, Downtown’s rate ended the month at 6.3 percent, down from 6.9 percent in late March and 11.9 percent a year ago. This shortage of commercial space has driven up office rents at an increasingly rapid pace this year: they are up roughly 15 percent over the past 12 months, and have increased at an average annual rate of nearly 35 percent so far this year.

Other Business Activity

Regional purchasing managers indicate that manufacturing activity strengthened in May. Buffalo purchasers report continued strong growth in new orders, a pickup in hiring and an acceleration in production activity; commodity price increases grew increasingly widespread. Manufacturers in the New York City area report that activity re-accelerated in May, after holding steady at high levels in March and April, but purchasers in other sectors indicate a pause in growth. Prices for manufacturing inputs in the New York City area leveled off in May, but purchasers outside manufacturing report widespread cost increases—particularly for engineering, architectural and computer services.

New York State and New Jersey recently reached agreement on spending plans for the bi-state Port Authority, clearing the way for a number of development projects to move forward. These include a new \$200 million cargo terminal at Port Elizabeth, New Jersey, the leasing of air rights to build an

office tower above Manhattan's bus terminal, and a possible extension of the PATH commuter rail line.

Financial Developments

According to the latest survey of local bankers, demand for consumer loans, non-residential mortgages, and especially home mortgages fell compared with two months ago, while demand for commercial and industrial loans remained steady. Refinancing at Second District banks continued to slow, as has been the trend in the past few surveys: 44 percent of bankers indicate decreases in refinancing activity, and only 8 percent mention increases.

Most respondents report unchanged credit standards. Virtually all survey respondents continued to report higher interest rates on all categories of loans. On the deposit side, 76 percent of respondents reported a rise in their average deposit rate. Finally, delinquency rates continued to decrease for consumer loans, residential mortgages, and nonresidential mortgages, but remained steady in the commercial and industrial loan category.

THIRD DISTRICT – PHILADELPHIA

Economic activity in the Third District expanded in May, but there were indications that the rate of growth was easing. Manufacturers reported increases in shipments and orders. Retail sales leveled off in May after moderate increases in the previous two months. Auto sales were slightly above the year-ago level, although the sales rate slowed near the end of the month. Overall lending continued to rise at Third District banks in May, but the growth rate slipped. Commercial real estate markets remained firm, but residential markets showed some softening. Although homebuilders generally had steady sales, there were reports of a drop in demand for homes in the lower price range. Demand for existing homes also eased, but real estate agents said land and home prices have risen significantly.

The consensus in the Third District business community is for continued but slower growth in most sectors. Manufacturers forecast a slight increase in business in the second half of the year. Retailers anticipate some improvement in sales, and auto dealers expect sales to increase. Most of the bankers polled for this report forecast slower growth in lending for the balance of the year. Real estate brokers expect commercial markets to remain firm for the rest of the year, but they anticipate further slowing in demand for both new and existing homes.

MANUFACTURING

Manufacturing activity in the Third District rose in May. One-third of the industrial firms contacted for this report indicated that they had increases in orders and shipments during the month, although about half said business was steady. Relatively strong demand continued to be reported for lumber, wood products, fabricated metal products, and commercial and industrial equipment. Although order backlogs at plants in the District have been steady, on balance, delivery times have lengthened slightly. Firms in a variety of the region's major manufacturing sectors indicated that labor shortages have either limited their ability to meet growing demand for their products or caused them to reduce production rates.

Third District manufacturers continued to report rising input prices but only limited ability to pass rising costs on to final product prices. Firms queried on prices generally indicated that to date competitive pressures still preclude large increases in the prices of their own products, although some increases were noted for lumber, primary metals, paper products, and printing. Reports of rising wages in the manufacturing sector are still common, and some firms have noted recent increases in benefits costs as well.

Area manufacturers expect only slight increases in shipments and orders in the next six months, and they anticipate a decline in order backlogs. Although their forecast is for slight growth in business, firms polled in May plan to hire more workers, on balance, in the months ahead. Surveyed firms anticipate further increases in input costs, and they intend to raise prices for the products they make.

RETAIL

Reports from Third District retailers suggest that sales in May were around the same level as in May of last year. Unseasonably cold weather for much of the month was cited as a negative influence on sales. However, store officials generally indicated that business picked up during the Memorial Day weekend, and they expect some improvement in sales in June.

Auto dealers in the District reported that sales of most makes and models continued to be strong. The selling rate in May was somewhat above the rate set in May of last year. Some dealers noted a slight slowing in sales toward the end of the month, which they said was mainly the result of an inadequate supply of popular vehicles. Dealers believe the production shortfall will be made up in the second half of the year, and several have revised up their forecasts for the full year's sales level.

FINANCE

Third District banks reported increases in loan volume outstanding in May, but several noted that growth has been easing. Commercial and industrial credit demand did not expand as rapidly in May as it did in earlier months, according to several bank credit officers, who agreed that business borrowers, in general, have scaled back their expansion plans. Some bankers also noted that business borrowers have experienced some slippage in gross revenue and profit margins recently. Consumer lending, on balance, continued on an upward trend in May at banks in the District, although several

banks said growth has slowed. Residential real estate loan volumes have moved up, but applications for mortgages have dropped.

Several bankers noted slight increases in delinquencies in their consumer loan portfolios and a decline in the proportion of loan applicants, both consumer and business, that meet their credit standards. Loan pricing was still described as very competitive, although banks in the District do not appear to be relaxing the terms of loan covenants.

Looking ahead, the consensus among the bankers contacted for this report is that overall loan growth will slow during the second half of the year. While some gains in commercial real estate lending are anticipated, residential mortgage activity is expected to decline. Slight gains are forecast for consumer and business lending through the end of the year.

REAL ESTATE AND CONSTRUCTION

Commercial real estate markets in the region remain strong, according to brokers and property managers. The vacancy rate for the Philadelphia metropolitan area as a whole was estimated at 12 percent recently, about the same as at the end of 1999. New office buildings and conversions of industrial buildings to offices have boosted the supply of space. Leasing activity has been brisk and rents have increased by around 5 percent from year-end 1999, according to some estimates. Demand for industrial space also remains strong. Rents, especially for new logistics and technical facilities, have been on the rise and vacancy rates have fallen. Build-to-suit construction has been expanding along major transportation corridors in the region. Contacts in commercial real estate expect markets to remain firm through the end of the year, and they foresee construction continuing at around its current rate.

Homebuilders in the region generally reported steady sales in May, although some indicated that there has been a drop in sales of homes in lower price ranges, which they attributed to rising mortgage interest rates. Backlogs of homes to be built remained high, and builders said construction activity should remain near its current rate through the rest of this year and possibly into early 2001. Builders reported that labor costs continue to rise, although they do not appear to be accelerating. Price increases for building materials have moderated compared with last year. However, land prices were said to be rising strongly.

Residential real estate agents reported some declines in the number of people looking to buy existing homes in recent weeks. However, the number of homes listed for sale in most parts of the District remains low by historical standards, and sales prices have begun to rise more sharply than they did last year. Real estate agents noted that there has been an increase in the number of people looking to rent apartments. Apartment vacancy rates in the region have declined and markets were described as tight. Real estate agents said rising demand for apartments is the result of higher mortgage interest rates, which reduces the number of people who can qualify for home mortgages, and growing employment in the region, which has boosted the number of people moving into areas where jobs are available.

FOURTH DISTRICT - CLEVELAND

General Business Conditions and Labor Markets

Growth in economic activity in the Fourth District has moderated from the high rates experienced during the first quarter of the year. Labor markets are less tight than in April, although joblessness remains low. Business contacts reported that although skilled employees remain difficult to find, the general quality of potential employees has improved. The prices for consumer goods are said to be increasing more than in the previous report.

There has been a recent softening in the demand for temporary workers, particularly for administrative positions. Demand for unskilled workers remains strong. Although most contacts reported persistent wage growth, one found that increased student availability has led to a lessening of wage pressures.

Union contacts reported a rapid increase in health care costs for their members. The rising cost of pharmaceuticals appears to be an important component of the increase. Unions are less concerned about rising inflation, as the current contract negotiations are only rarely emphasizing cost-of-living adjustments.

Construction

District homebuilders reported a slowing of residential sales in the last few months, which some attribute to higher mortgage rates. Year-over-year sales declines for April and May varied among builders from between 5 percent and 10 percent. Builders have had to offer incentives in the form of easier financing or lower prices than last quarter in order to sell their houses. Homebuilders, while noting healthy profit margins, also noted that the cost of such incentives has eroded their margins somewhat.

Conditions in the commercial building sector appear to have improved somewhat since the last report, due to increased construction of warehouses and industrial buildings. Construction of office and retail structures is reported to be steady and strong. Some contacts reported the improved demand is due to a robust manufacturing sector. No significant changes in labor and materials costs have

occurred since the last report, though lead times (from order to delivery) for steel and brick have lengthened.

Industrial Activity

Demand for steel is reported to be strong for all products. Back orders are larger than this time last year. All contacts expect the third quarter to be very busy. The major steel companies attempted to increase prices in the first and second quarters of this year, but these attempts were reportedly beaten back by competitive pressures.

Heavy truck manufacturers expect large cuts in production of 10 to 15 percent year-over-year due to continued low sales from the first quarter of 2000. The low sales are reportedly due to high fuel prices, a large stock of used trucks, and higher interest rates. Some manufacturers are predicting layoffs to occur with the decline in production. Orders have increased for heavy construction equipment, reportedly due to increased highway construction. Durable goods production is described as good, with strong export markets. Purchases of farm equipment have also risen from their low levels of a year ago. Purchasing managers in the District reported moderately higher commodity prices in May, especially for brass, petroleum products, and paper products.

Consumer Spending

Though District retailers reported that sales remain at high levels, the pace of sales growth in April and May slowed relative to earlier in the year. General merchandisers continue to see good sales growth across all product lines although the rate of growth is lower than the unusually high rates experienced in 1999. Smaller, specialty retailers have seen somewhat more weakness in sales. Sales in the furniture and home furnishings category, for example, appeared flat in April and May, relative to the first three months of the year. A luggage retailer reported declining sales.

The retail sector reported mixed signals about the next quarter. On the one hand, inventories are said to remain at desired levels. On the other hand, some retailers reported increases in the prices charged by their suppliers. As a result, many have indicated that they have had to increase their retail prices. However, in spite of a sense among many retailers that things had slowed and may continue to slow, many organizations continue to expand and add staff. As has been true for some time now,

however, it remains difficult to recruit and retain employees. Wage growth in retail firms appears to have been on the order of 3 percent to 5 percent.

Sales growth slowed in the most recent period for most car dealerships, with most reporting no increase in sales over the May to April period. Due to recent increases in fuel prices, buyers are reportedly more interested in fuel-efficient automobiles, which are not yet available in enough quantity to meet the increased demand. Dealers are offering more attractive financing plans, as well as discounts and rebates in the pricing of new autos. Automobile dealers indicated revenue and sales volume for used cars have remained nearly the same this May as in May of 1999. Dealers of both new and used cars expect sales for 2000 to be flat or lower than last year, due to the recent increases in both interest rates and gas prices.

Agriculture

Greater than average precipitation in the month of May has brought mixed blessings to agriculture in the District. The corn crop has benefited, with predictions of good to excellent yields being reported throughout the region. However, continued high rainfall in June may result in lower yields. Wheat yields may also decline from disease if rainfall is high during June. Soybean production has been adversely affected by the rain, in part because of pests. However, most predictions about these three main crops of the District remain favorable.

Banking and Finance

Lending activity in the District is strong for commercial loans. Contacts attributed this to increased merger and acquisition activity and to inventory building. On the other hand, the demand for consumer loans is down, which was attributed to interest rate increases. The rate for loan delinquencies remains around 1 percent. There were mixed reports on the availability of funds for lending. Some banks reported very high loan-to-deposits ratios, whereas other banks reported having more available funds.

FIFTH DISTRICT – RICHMOND

Overview: Economic growth in the Fifth District generally continued at a strong pace in late April and May, although scattered signs of slowing were more in evidence. Activity in the residential real estate and banking sectors expanded at a more modest rate in recent weeks, in part because of higher interest rates. In contrast, revenue growth at services firms picked up in April and May and retail sales rose at a solid clip in the last several weeks. Moreover, manufacturing activity remained relatively strong; new orders rebounded from a spring lull and shipments growth picked up. In labor markets, new workers continued to be hard to find, and wages increased moderately. Prices of manufactured goods rose at a slightly faster rate in May, while price growth eased in the retail and services sectors.

Retail: District retail activity continued to advance at a brisk pace since our last report. Shopper traffic picked up in May and retailers were more optimistic regarding product demand over the next six months. Big-ticket sales were somewhat flat, however. An automobile dealer in the Research Triangle area of North Carolina noted that customer traffic in showrooms had fallen off, and that sales in the region had dropped about 15 percent compared to a year ago. An apparel retailer in West Virginia also reported a sales decline, due in part to a loss of mining jobs in the region. Wages in the retail sector advanced at a somewhat faster rate in May.

Services: Growth in services revenues picked up in recent weeks and moderate employment growth continued in the sector. Demand for services workers remained strong as District employers increasingly turned to foreign workers with short-term work visas to fill positions in landscaping, housekeeping services, and other seasonal or temporary positions. Strong demand for entry-level workers was said to be driving up wages at fast food restaurants. A contact in the Tidewater area of Virginia reported that fast food restaurants were offering as much as \$8.00 per hour to attract employees--well above minimum wage.

Manufacturing: District manufacturing activity advanced at a moderate rate in late April and May as growth in new orders rebounded. Manufacturing shipments grew at a solid pace; growth was particularly strong at tobacco, lumber, paper, and industrial machinery producers. On the employment front, job growth remained modest, in part because of a continued shortage of qualified workers in some areas. A manager at an industrial machinery plant in Maryland, for example, noted that "low unemployment makes hiring qualified

individuals quite difficult--we have chosen continued use of overtime instead."

Manufacturing wages rose at a quicker pace in both April and May, and raw materials prices trended moderately higher since our last report, largely reflecting higher oil and stainless steel prices.

Finance: District bankers reported that growth in lending activity slowed in recent weeks as interest rates moved higher. Most bankers we spoke with said that while their local economies remained vibrant, commercial lending activity was losing steam. Our contacts characterized new residential mortgage lending as sluggish and they noted that refinancings dropped markedly. Lenders expressed growing concern that higher interest rates would reduce lending activity further; a Charleston, S.C., banker captured the sentiment of several bankers noting that he was "waiting nervously to see what will happen next." Lenders generally indicated that their credit standards changed little in recent weeks; nevertheless, several lenders described increased efforts to market loans to individuals with marginal credit ratings.

Real Estate: Residential realtors began to see a slight cooling of home sales and customer traffic through model homes in May. While home sales in the District of Columbia were said to be at normal seasonal levels, realtors reported that home sales outside the city's beltway slowed, especially those to first-time homebuyers. Homebuilders in Greensboro, N.C., reported a decline in building permits and realtors there said home sales were softer across all price ranges. Sales of upper-end homes were characterized as strong in some areas of Myrtle Beach, S.C., but were said to have slowed in the Tidewater area of Virginia, and in eastern North Carolina. New homes sales were also reported to be down in West Virginia where there was scattered evidence that materials shortages were easing. A homebuilder near Charleston, W.V., for example, noted that he could now get same-day delivery of materials from his lumberyard; a year ago such deliveries were taking up to three days.

Commercial realtors in the Fifth District reported generally strong markets, although some signs of slowing in the pace of activity were emerging. Realtors in Maryland and the District of Columbia said that office rental rates were rising as supplies of available Class A office and industrial space tightened. One realtor noted that it was "clearly a landlords' market" in the area. Contacts in Northern Virginia said an inflow of telecommunications and "dotcom" businesses continue to absorb large blocks of office space and they indicated that the hotel market there was also very strong. In contrast, commercial real estate activity in the

suburbs of Richmond, Va., was described as somewhat slower, although the level of activity there continued to be high. Commercial vacancy rates and rental rates were reported to be stable in Raleigh, N.C., but one realtor noted an "air of caution" about prospects for new construction in the area. In Charlotte, N.C., new industrial and manufacturing construction activity was said to be slowing, while office development picked up.

Tourism: Tourist activity remained strong in recent weeks despite a wet Memorial Day weekend. A manager of five hotels in the Virginia Beach area told us that tourist activity had increased overall in May despite the Memorial Day weekend washout. A hotelier on the Outer Banks of North Carolina said that while rainy weather caused some tourists to check out early, attendance at the reopening of the Cape Hatteras Lighthouse and at a huge fishing tournament offset vacationers put off by rainy weather. Clement holiday weather prevailed in Myrtle Beach, S.C., and several contacts there reported being completely booked for the weekend.

Temporary Employment: Demand for temporary workers remained strong in most areas of the District. Contacts at temporary employment agencies attributed the strength to the robust economy and to the difficulty of finding permanent workers. Warehouse and factory production workers remained in short supply as did workers with administrative and computer skills. A contact in Richmond, Va., reported an urgent need for administrative assistants with word processing and data entry skills, but noted that she would gladly settle for people who were simply "reliable." Workers placed by agencies on a temporary basis were being increasingly hired by companies for permanent positions, making it more difficult for agencies to maintain an adequate pool of employees for temporary work assignments. Contacts at employment agencies indicated that wages continued to advance at a moderate rate.

Agriculture: With the exception of South Carolina, District states received abundant rain in recent weeks and topsoil moisture levels improved. Cotton, peanut, and soybean planting generally progressed on schedule in Virginia and North Carolina. However, dry conditions persisted in South Carolina and farmers in some areas of that state halted the planting of cotton and soybeans until soil moisture conditions improve. The lack of rain in South Carolina also led to deterioration in pasture conditions and some farmers were considering culling their herds because of the shortage of forage stocks.

SIXTH DISTRICT – ATLANTA

Summary: Southeastern economic activity expanded moderately, and contacts are mostly optimistic about future prospects. Retail sales during April and May exceeded year-ago levels but growth has weakened. Evidence of a slowdown in the District's single-family residential market is mounting; however, commercial real estate markets remain strong. Overall, loan demand has weakened slightly in the Southeast. Reports from both the industrial and tourism sectors are mostly positive. Tight labor markets continue to constrain growth in the District, and reports concerning prices are mixed.

Consumer Spending: According to District retailers, sales in April and May exceeded year-ago levels, though growth weakened somewhat in May. A majority of merchants said that recent sales had met expectations and inventories were generally balanced. However, many retailers contacted noted a slowdown in recent activity and anticipate that second-quarter growth will be modest. Women's apparel, electronics and jewelry are selling well, while men's apparel sales continue to be weak.

Construction: The District's single-family residential market is showing more signs of a slowdown. More contacts than in our previous report observe that activity has weakened. Both Realtors and builders believe that the market will continue to decelerate through the remainder of the year. In most cases, the rise in interest rates is credited with slowing demand while the lack of suitable lots, particularly in Georgia and Florida, is a major restraining factor as well. Most District Realtors contacted report that home sales in April and May were equal to or below year-ago levels. Additionally, contacts indicate that home-price increases are slowing, and there is evidence that concessions are on the rise as are customer negotiations.

In contrast to residential real estate markets, the region's commercial real estate markets remain strong. Occupancies are described as healthy while absorption continues strong. Office space is scarce in several key markets. Speculative office development continues in several parts of the District. Industrial markets remain tight around the District and new projects continue to be announced. Retail growth is substantial. Overall, the picture is rosy; however, contacts approach the future with some caution.

Manufacturing: Reports from the industrial sector are mostly positive. Growth in the region's auto industry is stimulating production of parts and components. A Tennessee manufacturer of transmissions is adding jobs in an expansion project. In Georgia, a supplier of steering wheels and dashboard components is ramping up production and adding to employment rolls to supply Alabama's new Honda plant.

Louisiana's oil industry is reportedly "heating up," but smaller drilling companies are having trouble getting rigs running because of a lack of labor crews. Most of the increased activity is associated with increased pumping and utilization of existing wells, rather than on new explorations. In the manufacturing sector, the outlook continues to be positive. Orders and the factory workweek are up for a producer of commercial and industrial machinery, and orders are robust for a high-tech producer of television set-top boxes. A developer of fiber-optics technology is expanding employment rolls. Less positively, production is down for a Georgia apparel producer, and a Mississippi glove manufacturer is shutting down operations.

Tourism and Business Travel: Prospects for the tourism and hospitality sector remain very positive. Summer bookings for south Florida hotel/motel rooms suggest a record-summer season. Miami posted the highest occupancy rates and the third highest room rates in the nation for the first

quarter. Higher gas prices do not appear to have had any measurable effect on south Florida tourism, and consumers reportedly are not expected to change their summer travel habits as a result of the higher prices. Mississippi Gulf Coast casinos continue to produce record breaking revenues. This is reflected in the growth in the number of hotel rooms and increase in flights at the Gulfport-Biloxi airport.

Financial: Bankers report that overall Sixth District loan demand has weakened slightly. The softness in the refinancing sector has been mitigated somewhat by reports of strong activity on the consumer side in home-equity lending. Demand for commercial and industrial loans was reported to have slowed recently. Some financial institutions have tightened terms on commercial and consumer loans, while relaxing them in the residential mortgage market. Consumer loan demand continues to be robust, while deposit growth slowed and residential mortgage lending remains down.

Wages and Prices: Tight labor markets continue to burden the District. Nursing and IT employees are in especially high demand. One fast growing Internet company says that its average cost for new employees is up by 15-20 percent more than budgeted a year ago. A temporary employment agency reports that search times for candidates have increased so dramatically that they expect a significant near-term escalation of wages. After holding wages steady for several years, some Alabama employers are feeling pressure to raise wages 5-8 percent. The pool for “qualified candidates” is shrinking, according to the manager of a large Georgia mall, and a spokesman for theme parks in central Florida foresees difficulties in filling thousands of summer job openings. More reports than last time indicate that companies are using productivity-based cash incentives and are increasing benefits.

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Most contacts report no significant change in prices since the last beige book, while there are some reports that are up or mixed. Copper and oil prices are reportedly down from recent highs, but there has been a recent upward movement in paper products, meats, grains, and vegetables. One contact indicates further escalation in building materials prices. Prescription drug prices are surging, according to reports, with increases as high as 35 percent.

SEVENTH DISTRICT—CHICAGO

Summary. The Seventh District economy remained strong, but the pace of expansion moderated further in April and May. Consumer spending growth softened notably and many retailers suggested that sales results in the Midwest were not as good as in some other regions. Growth in construction activity slowed slightly again, but both residential and nonresidential activity was described as strong. While production generally remained robust, manufacturers reported more mixed conditions. Lenders reported solid, steady loan demand from businesses, but moderately softer demand on the consumer side. Worker shortages and wage pressures persisted in the District, but neither showed signs of intensifying over the last two months. District farmland values rose 2 percent during the first quarter. Corn planting was essentially complete and topsoil moisture levels improved with timely rainfall in recent weeks.

Consumer spending. Consumer spending in April and May softened noticeably in many key segments. Retailers, both discounters and general merchandisers, generally reported that sales fell short of their expectations, in part due to unfavorable weather. However, sales of home-related items (such as appliances, electronics, and home furnishings) remained strong as did sales of ladies apparel and jewelry. In contrast, results for seasonal items were mixed, with sales mostly described as soft. Retailing contacts with a national presence generally indicated that sales in the Midwest were softer than in the nation as a whole. Despite generally weaker-than-expected sales results, there were few signs that inventories were building. The casual dining business remained strong, although one contact noted that business softened slightly in April and moderated a little further in May. Several District auto dealers reported a discernible sales slowdown in recent weeks, with a contact at one large auto group citing higher gasoline prices and interest rates as contributing factors. This contact also noted that inventories were well above the group's desired levels, and that costs of maintaining that inventory cut profit margins significantly. While overall price increases at the retail level remained modest, there were more frequent reports that higher fuel costs were pushing up prices for distribution and travel & tourism-related services.

Housing/construction. Overall construction activity slowed modestly in April and May, but most contacts continued to describe the market as strong. Sales of both new and existing homes were off from year-ago levels in much of the District, although no one was "singing the blues," according to one contact. A leading realtor in one of the District's largest metro areas said that while May's

existing home sales were off significantly from year-ago levels, it was still the second best May ever. Some contacts indicated that higher mortgage interest rates had taken many first-time buyers out of the market. One contact suggested that this was beginning to have a “trickle-up” effect; that is, when low-end homes do not sell, the owners of those homes cannot move up to a bigger home. A suburban architect noted that some clients were scaling back residential remodeling plans somewhat and pressing for quick turnaround on drawings so permits could be obtained and financing locked in before interest rates moved higher. Nonresidential activity remained strong, although contacts suggested that growth may have slowed somewhat in recent weeks. One retail contact pointed to more contractor bids on their expansion projects (compared to a few months ago) as a sign of some softening in the commercial building segment. There were some reports that public projects, which contributed significantly to overall growth earlier in the year, had softened slightly in recent weeks. Generally, however, contacts suggested that nonresidential construction activity was strong and fairly steady, and most remained confident that the supply of commercial space was in line with demand.

Manufacturing. Conditions in the manufacturing sector became more mixed in recent weeks as the region’s star performer, its auto industry, showed some signs of slowing. Nationwide, light vehicle sales fell in May, the first year-over-year monthly decrease since August 1998. However, auto analysts pointed out that sales were still very strong, around 17 million units at an annualized rate, and suffered only in comparison to last May’s exceptional sales results. The region’s steel industry continued to run near capacity, despite sluggish new orders from the industrial segment, as demand remained strong from the construction segment—particularly for government projects (schools, highways, etc.). One analyst noted that there was some inventory building in the first five months of the year as buyers stocked up on steel products ahead of an announced price increase. Reports from manufacturers of heavy equipment were mixed. Orders for agricultural equipment picked up slightly from very low levels, while orders for heavy trucks and construction and earth-moving equipment decreased. Equipment producers noted that demand from European markets was picking up while the domestic market was sagging. A producer of communications equipment reported strong orders and rising backlogs, while also indicating that most of the strength in demand was coming from overseas. Most manufacturers reported that the pricing environment remained very soft. One contact noted that gypsum wallboard prices, which had been relatively firm, slipped recently as new capacity came on stream.

Banking/finance. Overall lending activity was again strong, although some contacts indicated that growth had flattened out at high levels. Home-equity lending was robust during April and May, just as new mortgage applications slowed noticeably. One contact noted that demand for

adjustable-rate mortgages, which had picked up earlier as rates on fixed-rate mortgages increased, softened in recent weeks. Consumer loan quality was generally described as good and steady. Business loan demand remained strong, although most contacts suggested that loan growth had flattened out. There were some indications that lenders in the District were tightening their standards on commercial loans, with one banker suggesting that nearly all banks were taking a closer look at deals, particularly for commercial real estate loans. The quality of outstanding business loans remained high, with a large money center bank reporting that the level of non-performing loans was “extraordinarily low.”

Labor markets. Contacts reported very little change in tight labor market conditions in recent weeks as strong demand, worker shortages, and wage pressures persisted. In addition, a survey of hiring plans suggested that employers in the Midwest expected to continue adding to their payrolls, signaling that labor markets will remain tight in coming months. While shortages of qualified workers were widespread, they were particularly severe in the trucking and retail industries. A large transportation company noted that a dearth of drivers led to a double-digit increase in the mileage rate paid to drivers in February, and may lead to further increases in June. Contacts in the retail industry also reported that finding and retaining workers remained difficult. While overall wage pressures were relatively stable, a contact in casual dining indicated that employment costs were up 4 to 6 percent from a year ago. This contact also noted that wage gains had recently begun to outstrip increases in productivity. There was virtually no evidence, however, that higher wages were translating into higher prices at the retail level.

Agriculture. Our survey of agricultural bankers showed that District farmland values rose an average of 2 percent during the first quarter (i.e., from January 1 to April 1), with all five District states registering an increase. Average cash rents were little changed from last year, though bankers in Michigan and Wisconsin reported a modest increase. Farm loan repayments continued to be a concern during the first quarter. This encouraged farmers and bankers to increase their use of farm loan guarantees from the Farm Service Agency. Over three-quarters of surveyed bankers indicated they were making some use of these guarantees. Corn planting in the District was essentially finished at the end of May, well ahead of the average pace. Soybean planting also neared completion. Crop prospects improved in late May as timely rains replenished topsoil moisture throughout the District, although dry conditions were still a concern in much of Iowa. Some areas of Wisconsin reported crop damage due to a frost in late May.

EIGHTH DISTRICT - ST. LOUIS

Summary

Outside of softening in some home and vehicle sales, business conditions in the District remain steady overall. Motor vehicles sales are down from a year earlier, in some cases substantially. Higher interest rates and gasoline prices are frequently cited as causes. Retail sales, on the other hand, are up from a year earlier, although many contacts report that sales fell below expectations, primarily because of sales to online vendors. Tight labor markets continue to affect many firms' ability to meet output demand. High fuel prices are pinching profits at trucking firms. Home sales and construction have slowed as interest rates have risen. Credit standards for loans have not changed recently, but demand for some real estate and consumer loans has weakened. Drought-like conditions are still the norm in most parts of the District, even after some rainfall in late May provided temporary relief.

Consumer Spending

Retailers report that sales during April and May are up about 4 percent on average from a year earlier. Department stores showed the strongest growth, up almost 8 percent in some cases, while gift and specialty stores recorded sales declines. More than half of the contacts note that sales growth fell below expectations, with about a quarter citing online sales, especially of electronics, as a reason. Shoes, women's accessories, lawn and garden supplies, and electronics all have been posting weak sales. Appliances, jewelry and women's apparel, on the other hand, have been strong sellers. For the most part, retailers' inventories are at desired levels. Contacts are optimistic about the summer, expecting sales to increase between 4 and 5 percent over a year earlier.

Car dealers report that sales in April and May are down about 6 percent on average from a year earlier. In some instances, declines of up to 20 percent have been reported. Many contacts cite rising interest rates and gasoline prices as causes of the slowdown. With more than half of the contacts reporting that vehicle inventories—especially of SUVs—

are above desired levels, many dealers are raising rebate amounts to move vehicles. Most dealers, however, remain optimistic that sales this summer will pick up.

Manufacturing and Other Business Activity

Contacts report stable business activity in the District, although tight labor markets are still a major problem for nearly all industries. Some firms continue to note that labor shortages are restricting their output capabilities. Hit especially hard have been retail establishments, manufacturing firms and hospitals, which are raising starting hourly wages by \$1 or \$2 to attract workers for positions ranging from nurses to cashiers. Many other firms are coping by recruiting overseas workers to fill positions. Hotels and retail stores report offering career counseling, job training and child care to attract employees.

High fuel prices are taking a toll on District transportation and trucking firms, which continue to surcharge customers 3 to 6 percent to maintain profits. Most trucking companies posted first-quarter losses, but hope to break even in the second quarter.

Labor shortages and fuel prices notwithstanding, contacts report steady business activity. Numerous firms are expanding or moving into the District, among them, many high-tech companies. An online customer support firm, which recently opened in St. Louis, will create 600 jobs by year-end; two Internet companies are opening in Louisville, together creating about 150 jobs. Six other expansions and openings in Louisville and Memphis will bring about 650 jobs to the District in the next few months.

A handful of closings have also occurred. An abrupt closing by a Memphis paper products producer, due to the loss of its largest customer, eliminated 300 jobs. Competition in the food industry will result in a major grocery store chain closing 20 stores within the District by July.

Real Estate and Construction

Residential home sales throughout the District continued to slow moderately in May. Some real estate agents have noted longer turnaround times, especially for new single-family homes, and a growing inventory of houses. Agents expect sales to continue

slowing—but not to fall off substantially—during the year because of higher interest rates. Median prices for homes in April are down from a year earlier.

District-wide residential construction, mirroring the sales reports, declined slightly in April, although it remained at a high level. Year-to-date and monthly building permits are down from their year- and month-earlier levels in most areas of the District. Commercial real estate markets, particularly sales and leasing of office space, are holding steady. Some new construction projects, however, have reportedly been put on hold because of higher interest rates.

Banking and Finance

According to respondents of a recent Senior Loan Officers survey, credit standards for all loan categories are unchanged. Respondents also report that demand for commercial and industrial loans and for commercial real estate loans remains unchanged. Demand for residential real estate loans, on the other hand, is weaker. Half of the respondents note that demand for consumer loans is weaker, while the other half have experienced no change. Banks continue to have trouble attracting deposits.

Agriculture and Natural Resources

Drought-like conditions continue to affect much of the District. Although temporary relief arrived in late May—when widespread rainfall across the District helped replenish topsoil moisture in all states except Mississippi—more is needed to bring subsoil moisture to adequate levels.

Despite the dry conditions, unseasonably warm spring weather allowed for an earlier-than-normal planting of the major crops in most parts of the District. The corn, soybean, winter wheat, rice and cotton crops are in good-to-excellent condition in most areas, with only isolated insect problems being reported.

NINTH DISTRICT--MINNEAPOLIS

As summer begins, economic activity in the Ninth District remains hot. Construction, manufacturing, energy and platinum mining are still strong. The outlook for summer tourism is bright and consumer spending continues to heat up the economy. Agriculture is starting to improve from the dismal past financial conditions. Labor markets are still strong as businesses continue to report wage pressures, and some price increases are noted, primarily in petroleum, construction and housing.

Construction and Real Estate

Commercial construction is still expanding at a brisk pace. In the western suburbs of Minneapolis, the amount of available office space leased or purchased during 2000 is expected to finish twice as high as the previous record, according to a commercial real estate firm. This summer, South Dakota will spend twice the average amount of recent years on road construction projects. Contracts awarded for new construction projects in the Dakotas and Minnesota increased 22 percent for the three-month period ending in April, compared with a year earlier.

Meanwhile, homebuilding continues to grow. A building association representative in La Crosse, Wis., projects strong demand for high-priced homes for the rest of this year. District housing units authorized increased 5 percent for the three-month period ending in April compared with a year ago. However, bank directors report that homebuilding is slower in North Dakota and rural parts of Montana.

Consumer Spending and Tourism

Consumers haven't slowed their spending at retail stores. A major Minnesota-based electronics retailer reports that year-to-date April same-store sales in district states were up 7 percent to 12 percent compared with a year ago. A chamber of commerce official in northwest Wisconsin reports that retail sales are above year-ago levels. New car and truck registrations in South Dakota are up over 20 percent for April compared with a year ago, while registrations in North Dakota remain flat.

Prospects for summer tourism are bright. A tourism official in the Upper Peninsula of Michigan has received higher-than-normal inquiries about summer travel. Tourism in the Duluth, Minn., area is currently 8 percent to 10 percent above year-earlier levels and is expected to remain strong throughout the summer. A chamber of commerce representative in

central Montana projects tourism to increase 3 percent to 4 percent in the area compared with a year ago; however, reservations are down from last year at Glacier National Park.

Manufacturing

Manufacturing in the Ninth District remains robust. A recent survey by Northern Michigan University of manufacturers in that area indicates strong growth in sales, employment and capital spending. A May purchasing manager survey by Creighton University indicates strong growth in South Dakota, slower growth in North Dakota and a slowdown in Minnesota. As evidence, sales are strong at a South Dakota plastic product firm. In addition, sales are up 10 percent to 15 percent compared with a year ago at a Minnesota electronic equipment producer, and a fabricated metal products company reports full production and strong sales. However, a Wisconsin food and kindred product manufacturer reports lower sales due to a shortage of labor.

Mining and Energy

The iron ore and platinum industries continue to operate at near capacity. An iron ore industry spokesperson reports full production at nearly all iron ore mines. However, a steel company announced the closing of one of the oldest iron ore mines in the United States. The northern Minnesota mine, which currently produces about 7 million tons a year and has 1,400 workers, will close next year. Other district mines are expected to meet the steel company's need for iron ore. March year-to-date iron ore consumption was 13 percent above year-ago levels, while March inventory levels were down 17 percent. Meanwhile, a Montana mining industry spokesperson reports platinum mining is at full production, with a new mine under development and scheduled to be in production within two years.

Meanwhile, Ninth District oil exploration continues at a strong pace in response to high petroleum prices. In May, eight rigs were operating in North Dakota compared with two a year ago, and Montana rig operations increased to six compared with three a year ago.

Agriculture

"Increased cattle prices have reduced ranchers' debt and improved the local economy," reports a South Dakota agricultural lender. Farmers' financial condition continues to improve, based on preliminary results of the Ninth District's second quarter (May 2000) survey of agricultural credit conditions. Loan repayments have improved as 77 percent of

respondents report average or above-average levels of loan repayments compared with 43 percent a year ago. In addition, farm income improved as 53 percent of respondents reported average or above-average farm income compared with 18 percent a year ago.

Moreover, farmers had a productive spring. The U.S. Department of Agriculture reports that district spring planting and crop progress is significantly ahead of the five-year average. In addition, due to rain in May and early planting, most district crops are in good condition. The U.S. Department of Agriculture reports that 86 percent of the South Dakota corn crop and 64 percent of the Minnesota soybean crop are in good to excellent condition.

Employment, Wages and Prices

Labor markets remain tight, yet many employers continue to plan expansions. A Minneapolis area health care facility reports difficulty finding skilled workers, as they look for 40 to 60 new employees. This summer, businesses expect to hire large numbers of seasonal workers. "I can't imagine a 16- or 17-year-old trying to get a summer job, not being able to get one," said a Wisconsin labor analyst. A Minnesota real estate management company reports that some stores are delaying opening due to a lack of qualified workers. According to a survey of employers conducted by a temporary-services agency, 36 percent of Minneapolis-St. Paul firms expect to increase workers this summer, 12 percent will reduce staff. These results are down from a year ago when 47 percent of firms expected to increase staff and 2 percent predicted reductions.

Employers are still paying higher wages to attract workers. Electrical workers in St. Paul negotiated for wage increases over \$2 per hour, in part to cover rising health care costs. Wages for hired field and livestock workers on district farms were up around 3 percent in April compared with a year earlier. A member of the advisory council on small business, agriculture and labor reports higher compensation costs, bigger investments in labor-saving technology and greater use of temporary services.

Some price increases were noted, especially for petroleum, construction materials and housing. According to an informal survey of manufacturers in the Dakotas, Minnesota, and Wisconsin, about 60 percent of respondents noticed increases in input prices, while 50 percent expect to increase product prices about 2 percent to 5 percent. Paper and construction material prices are up, including a 15 percent hike in asphalt, according to a bank director. A Minneapolis-St. Paul apartment owner plans to raise rents 8 percent to 10 percent in June, the second increase of the year.

TENTH DISTRICT - KANSAS CITY

Overview. The Tenth District economy showed some signs of cooling in May but remained generally solid. Retail sales were flat, factory activity edged down from high levels earlier in the year, and residential construction slowed following recent interest rate increases. In contrast, commercial building remained strong and district energy activity increased after holding steady earlier in the year. In the farm economy, low crop prices continued to be a concern. Labor markets remained tight, with wage pressures similar to previous surveys. Prices for manufacturing materials continued to rise, and some firms passed these cost increases through to output prices. Construction material prices increased seasonally, while retail prices were largely unchanged.

Retail Sales. Retail sales remained flat in May and showed little change from a year ago. Home furnishings continued to experience strong sales, while sales slowed for high-end women's clothing. Store inventories were basically unchanged in May. Despite sluggish sales in recent months, managers were quite optimistic about summer retail activity. Motor vehicle sales were also flat in May, as dealers indicated that interest rate increases were restraining automobile sales in some markets. Trucks, however, continued to sell particularly well throughout the district. Dealers were generally optimistic about sales in coming months, although some expressed concerns about the availability of domestic vehicles.

Manufacturing. District factory activity edged lower in May, with somewhat fewer firms reporting high levels of capacity utilization. There were more reports of material availability problems than in previous surveys, particularly for steel products and semi-conductors. Lead times increased slightly. Many plants trimmed inventory levels in May, due in part to strong product sales. Most managers expect to continue trimming stocks in the next few months.

Real Estate and Construction. Housing activity has slowed since the previous survey, while commercial construction remains strong. Most home builders reported in May that housing starts were down 10 to 20 percent from last year's record pace, and expectations of future residential building have cooled considerably. Home sales have fallen in much of the district, and inventories of unsold homes have edged up from previously low levels. Mortgage demand was flat in May, and lenders' expectations of future demand have fallen considerably following recent interest rate increases. In contrast to housing, reports suggest continued strength in the nonresidential market, particularly for office buildings. This strong office market is expected to continue through the summer. Builders reported few concerns about material availability in May and do not anticipate problems developing in the summer.

Banking. Bankers report that loans edged up and deposits edged down over the past month, slightly boosting loan-deposit ratios. Demand increased modestly for consumer loans, residential construction loans, and commercial real estate loans. On the deposit side, demand deposits, small time deposits, and large CDs all declined slightly. Almost all respondent banks increased their prime rate in the past month, and most raised their consumer lending rates as well. A few banks tightened lending standards, but most left their lending standards unchanged.

Energy. After holding steady earlier in the year, district energy activity began to move higher in April and May. The count of active oil and gas rigs in the district has risen more than 10 percent in the past two months. Natural gas prices continued to move upward and now sit 56 percent above year-ago levels, with strong forecasts for summer demand and supply shortages driving expectations for further increases. The price of West Texas intermediate crude oil has returned to \$30/bl levels, helping to sustain the resurgence in overall economic activity in several energy-dependent areas of the district.

Agriculture. Unusually warm, dry weather has hurt yield prospects for the district's winter wheat crop, which is nearing harvest. Timely rainfall throughout the growing season will be needed for normal development of the corn and soybean crops. Despite continued weather risks to growing crops, low crop prices remain a concern for the farm economy. District bankers indicate farm loan portfolios remain healthy, however, and relatively few have significantly increased their use of government guarantees of farm loans. Small business activity remains sluggish but steady in many of the district's rural communities.

Wages and Prices. Labor markets in most of the Tenth District remained tight in May. Retailers and manufacturers, however, reported slightly fewer problems finding workers than in previous surveys. Shortages persisted in occupations such as engineering, nursing, information technology, and skilled construction trades. Moreover, summer recreation businesses in the district reported strong competition for seasonal workers, as entry-level service positions remained hard to fill throughout the district. Wage pressures were largely unchanged from previous surveys. Several firms indicated that labor problems were less of a concern recently than price increases for materials. Prices continued to rise for most manufacturing materials, including metals, resins, chemicals, and other petroleum-based products. Further increases in input prices are anticipated. Purchasing managers also reported higher costs due to transportation surcharges. Some manufacturing firms have begun to pass these cost increases through to output prices. Prices for some construction materials rose seasonally, but builders do not anticipate further increases this summer. Retail prices were largely unchanged in May after edging up in recent months, and no significant increases are expected in the near future.

ELEVENTH DISTRICT—DALLAS

Overall Eleventh District economic activity increased in May, despite some evidence that financial conditions have affected the economy. Demand for business services was still very strong, and energy activity continued to accelerate. Manufacturers generally reported increased or continued strong demand, and financial service contacts said loan demand was mostly strong. Retail sales growth decelerated throughout the month however, and residential construction activity declined. Agricultural conditions remained difficult, although government payments have helped the financial condition of producers. Many contacts indicated increased uncertainty about the future, but their outlooks remained positive.

Prices. Overall price pressures were up, led by energy and manufactured products, the latter partly a result of higher energy prices. Low inventories contributed to sharp increases in energy prices. Crude oil prices rose from \$25 per barrel in late April to \$30 per barrel mid-May and spot natural gas prices rose to over \$4 per thousand cubic feet. Natural gas storage was 23 percent below year-ago levels on May 1, and hot weather nationally stimulated demand, which prevented storage from filling. Inventories of gasoline also are low which have pushed gasoline prices up 35 percent over the last six weeks. Currently, there are no shortages of gasoline, but there are concerns that there will be strong demand in the United States for summer driving and that imports will be limited by strong demand in Europe as well. Diesel prices also rose by about 10 cents per gallon because stocks were depleted by strong demand from truckers and farmers. Petrochemical producers expect to boost their prices significantly if prices for natural gas feedstock remain high, and they expect strong demand for petrochemicals will allow them sustain the increases. Prices for brick and glass products were also up and are expected to rise further, which contacts attributed to higher natural gas prices. Rising wages and a shortage of some chips was putting upward pressure on some electronics prices. Computer manufacturers said the movement away from desktops to notebooks is resulting in higher selling prices because notebooks cost more. Higher prices were also reported in the service sector. Some service firms

said greater client demand was making it easier to pass along salary increases to fees, but others said competition remains significant and is limiting fee increases. Cement, concrete and lumber prices declined slightly.

Labor Markets. Labor market tightness continued to be reported in nearly all sectors. The energy industry is having problems hiring large numbers of workers, and contacts said the industry's reputation as an unstable employer is not helping. Auto dealers reported upward pressure on wages for mechanics. Service firms said wages and salaries have risen in almost every area, and an employment agency added that anyone who has not been convicted of a violent crime, is drug-free, and can show up and work 8 hours a day has a job if they want one. Some manufacturers reported that the scarce supply of skilled workers is translating to general wage pressure throughout the industry. Many firms now offer training, which they say is a big change from just five years ago. The recent stock market drubbing and shakeout of 'dot.com' companies has led to a slowing of the skyrocketing salaries in the legal industry and a halt to the exodus of labor, such as lawyers and MBAs, to Internet companies. One contact said that some employees have recently asked to return.

Manufacturing. Manufacturing activity was up, with strong demand for energy and high-tech products. Producers of computers and other high-tech machinery reported a significant increase in orders from the first quarter. A shortage of some processors was limiting production of computers. A large computer manufacturer said domestic consumer sales weakened over the last two weeks, but noted that demand is strong from almost all areas of the world and is optimistic sales will remain strong.

Petrochemical producers reported extremely strong domestic demand and improving demand from Asia and Europe. Refiners also reported extremely strong demand. Supplies are so tight that every refinery shutdown was immediately reflected in spot and futures prices. The seasonal maintenance period is now coming to an end, but Gulf Coast refiners generally operated at high levels throughout the period.

Demand for apparel products was up over the last few weeks, and contacts reported little change in the demand for brick, glass, primary metals and food products, with most reporting strong demand.

Fabricated metals producers also reported continued strong demand, with particularly brisk sales to the

energy and high-tech industries. Demand for concrete and cement was unchanged since slowing in the first quarter. Demand for lumber and wood products declined over the past three months and the decline accelerated over the last two to four weeks. Weak demand and mild winter weather, which allowed for more logging, has resulted in an oversupply of lumber.

Services. Demand for business services continued to be strong, and nearly all firms reported more activity than at this time last year. Temporary service firms said demand has been good from most sectors of the economy, and one firm said demand is at its highest level in recent memory. Accounting and legal firms also reported strong demand, but demand for legal services from dot-com companies has slowed as a result of weakness in financial markets and fewer IPOs. Most transportation firms reported generally strong demand. Trucking activity picked up recently, particularly for oil and construction. Airlines said that demand remains strong, but railroads reported weaker demand growth.

Retail Sales. Retailers said sales growth was strong in early May but decelerated during the month, ending with a poor couple of weeks. While some contacts said unseasonable weather probably affected sales, most believe it is possible that consumers are slowing purchases as a result of weakness in the stock market and higher interest rates. Some retailers lowered their sales outlook slightly. Auto sales remained strong.

Financial Services. Loan demand remained mostly strong, according to contacts, who are generally optimistic about business activity in the near term. Banks reported a slight slowing in real estate loans, but all other loan categories have experienced stable to strong demand. In some cases, loan demand is still outstripping supply.

Construction and Real Estate. Homebuilders reported slower traffic and sales over the past few weeks. Order backlogs fell, with some people removing themselves from the backlog because they no longer qualify for a loan or chose not to pay higher interest costs. Still, contacts said building remained at a good pace. Overall commercial development continued to slow. Contacts said some small speculative shopping mall and office projects were put on hold because of interest rate concerns. A few large commercial developments and shopping malls are helping boost activity, however. Demand for office

space picked up in recent weeks as new corporations are moving to the area and soaking up space.

Concerns about overbuilding are dissipating and plans for speculative building have revived for larger projects, and contacts say these larger projects will not be affected by interest rate increases.

Energy. Energy activity continued to accelerate. Oil service and machinery companies said the last pieces of the healing process from the 1998-99 downturn are falling into place. Contacts reported growing backlogs, and some companies are working around the clock to meet demand. The Texas rig count rose sharply over the past six weeks, from near 300 to 323. Gas drilling is leading the recovery. Drilling in the Gulf of Mexico returned to late 1997 peak levels, as the search for gas pushed producers offshore to deeper, more complicated, and expensive projects. International activity remained slow but continued to improve. Contacts say the “super-majors” are still digesting the last round of mergers and are moving slowly—trying to impress Wall Street with efficiencies rather than drilling activity.

Agriculture. High winds and hot temperatures slowed land preparation and stressed crops and forage across most of the District. Soil moisture remained low in many areas. The condition of the Texas wheat crop was rated 39 percent of normal in May. Range conditions have been poor and wheat grazing was difficult. As a result, livestock were being heavily culled at light weights. There continue to be some producers going out of business and large ranches converting into recreational properties.

TWELFTH DISTRICT — SAN FRANCISCO

Summary

Reports from contacts indicate solid expansion of the Twelfth District economy in recent weeks, although signs of moderation were apparent in some sectors. Sales of services and retail merchandise were strong. District manufacturers reported generally solid conditions, although weaker demand was evident in a few sectors. Conditions among District agricultural producers were mixed, as demand conditions were stronger for ranchers than for growers. Real estate market and construction activity slowed a bit in the Pacific Northwest and Intermountain states but remained very strong in California and Arizona. District financial institutions reported somewhat tighter credit conditions. Labor markets remained tight in most areas, and elevated energy costs were passed on to the prices of transportation services and petroleum-based products.

Wages and Prices

Respondents from all District states except Hawaii reported tight labor markets across the board. Difficulties in recruitment and retention have been most acute for workers with computer, technical, and financial skills, but contacts also noted shortages of retail workers and increased turnover in agricultural labor markets. Wage increases reportedly picked up a bit in some areas of the District, and employers' benefits costs have been rising rapidly.

In regard to price developments, sustained high prices for oil and other energy sources have raised producers' costs in recent weeks and have been passed on to the final prices of some goods and services. The prices of petroleum-based materials such as containers, plastic bags, and fertilizers have increased, raising costs for manufacturers, retailers, and agricultural producers.

Airlines and trucking companies have raised passenger airline fares and shipping rates in response to high fuel costs. Apart from these items, however, materials costs and final prices of goods and services remained fairly stable, due to competitive pressures and productivity gains.

Retail Trade and Services

Demand for retail merchandise expanded further in recent weeks. Sales of food, beverages, and pharmaceuticals were rapid throughout the District. Department store and apparel sales picked up somewhat, and price discounting was less evident in California; inventories generally were at or near targeted levels, with respondents noting that new computer technologies have improved inventory management. Reports regarding District vehicle sales were mixed; for example, an Idaho respondent reported weakened demand for new vehicles, but a Utah contact noted continued rapid sales growth for popular sport utility vehicles and light trucks.

Demand for services to businesses and households grew substantially in most areas. Sales growth has been especially rapid for telecommunications and Internet-related services, although contacts in California and Washington reported difficulty obtaining electronic telecommunication equipment, such as switches and fiber optic cable, to support further expansion. Demand for transportation services—both for passengers and for shipping—remained robust. Visitor arrivals to Hawaii picked up further, but in Utah hotel occupancy rates and revenues declined somewhat, as growth in the supply of hotel rooms has outpaced demand there.

Manufacturing

Manufacturing contacts reported solid conditions overall, although weakened demand was evident in some sectors. Semiconductor manufacturers experienced strong demand and very high rates of capacity utilization; continued rapid growth in productivity enabled them to expand output while prices remained flat or declined. Demand strengthened somewhat for District machine tool manufacturers, reportedly due in part to declining import competition associated with an increase in East Asian domestic demand. However, sales of farming machinery weakened. In the Pacific Northwest, lumber orders were sluggish and prices fell significantly, but orders for wood pulp increased further, causing prices to rise and keeping inventories low. New orders and shipments of Boeing aircraft reportedly were flat.

Agriculture and Resource-related Industries

Conditions for District agricultural producers were mixed during the most recent survey period. District beef producers reported further increases in demand and prices, although ranchers in Arizona and Oregon were hampered by dry pasture conditions and rising hay prices. In California and the Pacific Northwest, agricultural output was high due to favorable weather conditions and productivity enhancements associated in part with new information technologies. Despite increased demand from East Asia, prices on many agricultural commodities remained low as supply growth matched demand growth.

Real Estate and Construction

Construction activity and demand for residential and commercial real estate remained strong overall, especially in California, although slowing was evident in some states. Contacts in Oregon, Utah, Idaho, and Alaska reported slower home sales and price appreciation, and

respondents in several areas noted that increased mortgage rates have restrained activity in residential markets more than commercial markets. While home sales and home construction have slowed from their previously rapid pace in the Portland and Seattle areas, demand for commercial real estate has remained strong, especially in Seattle. Residential and commercial markets were vibrant throughout Arizona and California, with extremely rapid increases in commercial lease rates evident in the San Francisco Bay Area. Demand for residential real estate strengthened further in Hawaii, reportedly due in part to demand for vacation homes by residents from states such as California.

Financial Institutions

Contacts from District financial institutions reported some tightening of credit availability and slightly weaker loan demand in some areas, mainly for real estate loans. Respondents from Washington, Oregon, and Idaho reported declining demand for residential and commercial mortgages. Contacts also noted slower deposit growth at California community banks, and credit availability reportedly has tightened for agricultural producers there. A Hawaii contact reported no significant changes in overall loan demand there, despite a slight pickup in consumer lending.