Summary of Commentary on

Current Economic Conditions

by Federal Reserve District

November 1998
SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

NOVEMBER 1998
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SUMMARY

The information collected for these district reports suggests that all twelve district economies continued to expand in November, despite contraction in export industries. The rate of economic expansion slowed in the Atlanta, Boston, Dallas, Kansas City and St. Louis Districts, was unchanged in the Chicago, Minneapolis, Richmond and San Francisco Districts, and growth strengthened in the New York District.

Consumer spending was up, but several districts said sales were weaker than expected. Manufacturing activity was generally softer, mostly due to output declines in export-related industries. Several districts noted that some manufacturers were expecting further reductions in output. Overall, construction activity increased. Stronger consumer confidence and lower interest rates spurred homebuilding, refinancing, and a rebound in commercial construction activity in some areas. Loan demand was strong in most districts, but bankers reported generally tightened credit standards. Low prices and weak exports continued to hammer the natural resource and agricultural industries. Several districts noted sizable losses incurred by many agricultural producers.

Labor markets remained tight in nearly all districts, but reports suggest that wage pressures have subsided somewhat. Generally, prices of goods were reported to be steady or falling in nearly all districts, although there were scattered reports of higher prices.

**Consumer Spending.** Retail sales increased in most districts, but the tone of these sales reports was mixed. Strong sales were reported in the Kansas City, Minneapolis, New York and

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1 Prepared at the Federal Reserve Bank of Dallas and based on information collected before December 1, 1998. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.
Richmond Districts, but most districts referred to sales growth as modest, good or rebounding. Atlanta said retail sales were generally flat, while Boston said sales growth was positive but clearly slowing. Sales of seasonal merchandise and traditional gift items, such as toys, have been the strongest. Some districts noted that heavy homebuilding boosted sales of furniture and home goods.

Several districts said sales were weaker than retailers expected. Although a couple of districts noted that some contacts were concerned that consumers might be pulling back, most retailers blamed the unseasonably warm weather, which reduced demand for winter apparel and other products. A particular exception was the Minneapolis District, where retailers said the warm weather was stimulating overall sales.

Auto sales were reported to be strong or increasing in the Chicago, Dallas, Kansas City, Minneapolis, Philadelphia, and St. Louis Districts. The Cleveland District, however, said auto sales slowed significantly from their robust summer pace, and dealers were reporting full-to-heavy inventory levels. A few districts said dealers had increased the use of sales incentives and rebates to stimulate sales.

**Manufacturing.** Manufacturing activity generally softened, with output declines reported in export-related industries. The Chicago, Cleveland, Dallas, Philadelphia, St. Louis and San Francisco Districts reported weaker manufacturing activity than in the last beige book. The Kansas City and Minneapolis Districts reported unchanged activity, but Richmond reported that manufacturing had rebounded in that District.

Industries that were mentioned as cutting back production include agricultural equipment, apparel, chemicals, energy-related equipment, lumber, paper, some high-tech products, and primary metals—particularly steel. There were areas of strength, however.
Production of automotive and aircraft parts, construction-related products, furniture and some high-tech products were mentioned as expanding or strong. While production of and new orders for heavy trucks were strong in the Chicago District, there were reports of canceled orders, some with substantial down payments. There was a small rebound for semiconductor firms in the Cleveland District, although business has remained significantly below last year’s levels. Tobacco and textile firms in the Richmond District were trimming their workforce levels.

Services. San Francisco noted an acceleration in the demand for numerous services, while Dallas and Richmond reported a general deceleration. Transportation firms reported that shipments were up in the Dallas, St. Louis and San Francisco Districts. Demand for temporary-service employees was strong in the Cleveland and Richmond Districts and had rebounded from a third quarter drop in the Boston and Dallas Districts. The tourist season was one of the best in recent years in the Minneapolis District, and tourism was boosted by fair weather in the Richmond District. Tourism is moderating in the Boston District. Atlanta reports that tourism has been hard hit in Florida and attributes the decline to fewer visitors from Latin America.

Construction and Real Estate. Overall, construction activity increased in November. Most districts reported that housing markets and home building remained strong or had strengthened since the last report. Commercial construction activity rebounded in several districts, which contacts attributed to lower interest rates and improved consumer confidence. There were reports that lenders had increased interest rates and credit standards for commercial projects, which hampered commercial markets in some areas, although new projects were still going forward.
Banking and Finance. Low interest rates were stimulating loan demand in most districts, but bankers had generally tightened standards and credit terms. The demand for loans was strong or increasing in the Chicago, New York, Richmond, St. Louis and San Francisco Districts. In contrast, loan growth had slowed in the Minneapolis District, and Cleveland said that loan demand was soft. Several districts said residential mortgage and refinancing activity was strong or increasing, but noted a slippage in the credit quality of agricultural loans.

Labor Markets. Labor markets remained tight in nearly all districts. An exception was San Francisco which noted that, in a change from previous survey periods, manufacturers did not report difficulty finding skilled employees. Reports suggest wage pressures have subsided somewhat in many districts, with the exception of the Atlanta District and for some types of workers in the Boston, Chicago and Dallas Districts.

Several regions mentioned that the retail industry was having great difficulty finding qualified workers, and wages had increased for these workers in a few markets. A shortage of construction workers was also mentioned by several districts. The Dallas District reported that some contacts in the high-tech sector had turned their focus to retaining workers rather than hiring, partly because firms are focusing more on expanding capital rather than labor. An Atlanta contact also noted that any capital investment made by the firm was to increase efficiency and decrease labor costs.

Prices. Generally, prices of goods were reported to be steady or falling in nearly all districts. Reports of falling prices were prevalent in the manufacturing sector, with districts mentioning lumber, paper, petrochemicals, plastics, textiles, steel, and automotive and aircraft parts. Prices for some of these products are expected to decline further. Unseasonably warm weather in the United States contributed to falling energy prices and high inventories. Oil
prices have fallen to their lowest nominal levels in more than a decade. Agricultural prices are also low, with the exception of milk. There were a few reports of price increases, particularly for construction materials and in some real estate markets.

**Agriculture and Natural Resources.** Financial stress in the farm sector was reported by the Dallas, Chicago, Minneapolis, Kansas City and San Francisco Districts. Output reports were mixed, but regions with good production were hurt by low product prices. Hog prices are at their lowest levels in nearly 30 years, bringing large losses and some liquidations. A number of apple orchards in the Pacific Northwest went unpicked because prices were too low to cover production costs. High output and slow sales have resulted in a storage crunch in some areas, with large quantities of grain in temporary storage on the ground, although the Chicago District reports that the situation has not matched earlier concerns. St. Louis reports sharply slower demand for farm machinery and agricultural chemicals. The winter wheat crop was reported to be in good shape, but conditions remained dry in some areas.

The energy sector continued to decline, with falling drilling activity and a drop off in demand for oil field machinery and services. Drilling in the Kansas City District was down 10 percent in November, after falling 7 percent in October, while Dallas reports that drilling in Texas is down 38 percent from last year. Contacts in the Dallas District believe oil and gas producers are pulling back hard, in preparation for a prolonged period of low oil prices.
FIRST DISTRICT-BOSTON

Economic activity in the First District is generally expanding, but at a slower pace than in the first half of the year. Prices are reportedly stable or falling. Labor markets remain tight and firms in the region mostly report they are not adding to their work forces, except seasonally.

Retail

Most retail contacts report positive, but clearly slowing, sales growth in the September to early November period. Sectors said to be strong are middle to low-end department stores and building materials; sales growth is moderating in tourism and home furnishings, while men's casual wear and footwear continue to be weak. Retail sales the day after Thanksgiving were up modestly from year-earlier.

Permanent employment is reported to be holding steady on a same-store basis. Hiring for the holiday season is currently in progress. Some retailers say that labor markets are very tight, especially for information technology workers. The tourism sector reports that labor raiding is occurring and large wage premiums are being offered. Otherwise, wage rates are said to be either flat or increasing only slightly.

With the exception of tourism, respondents report that consumer prices and vendor prices are holding steady. The fast pace of inflation in hotel room rates is expected to end in 1999, as new hotel construction will ease current room shortages. Lumber prices are reported to be declining. Most contacts say profit margins are holding steady. Respondents report that recent capital expansions have been completed and they do not plan any additional expansions over the next six months.

Looking forward, retail contacts are cautiously optimistic for the holiday period, but report a great degree of uncertainty concerning the outlook for 1999. Most expect the current expansion to continue in 1999 but at a markedly slower pace.

Manufacturing

Half of the First District manufacturers contacted indicate that recent business is up from a year ago; the remaining firms report declines. Segments with growing revenues include automotive and aircraft parts, furniture, and building equipment. Weakness is reported in apparel textiles, machinery, and components for electrical, electronic, and sports equipment. Competition from Asian suppliers or a reduction in sales in Asian markets were the most commonly cited reasons for declining revenues.

Most manufacturers indicate that both their materials costs and their selling prices are either stable
or falling. The most notable downward price pressures are in textiles (because of competition) and automotive and aircraft parts (because of pressures from major customers). However, about one-quarter of the respondents plan to raise prices modestly because of rising costs for components or labor.

Contacts mostly report that their U.S. employment is flat or down (in about equal numbers) relative to a year ago. Hiring is concentrated on engineering, information systems, purchasing management, technical sales and service, and other professional and technical fields. Average wage and salary increases are mostly in the range of 2 to 6 percent.

About one-quarter of the respondents have reined in capital spending because of concerns about business trends. Others are maintaining their investment programs and typically cite factors such as a need to improve efficiency, become Y2K-compliant, or introduce new production or information technologies. Most manufacturers express a somewhat cautious view of their business prospects for 1999, but they cite examples of “silver linings” as well as “clouds.” Some firms that expect revenue gains predict flat earnings because of escalating labor costs, while others express confidence that they have taken actions that will enable earnings to continue to grow.

**Temporary Employment Firms**

Expansion continues at First District temporary employment firms, although growth has slowed from earlier this year at some firms. Contacts report a sharp drop in activity early in the third quarter, but most recovered relatively quickly. Overall revenues are 10 to 33 percent higher than year-earlier levels. Fall is typically a busy time for contract employment and October 1998 marked one firm's best month ever. Labor markets remain tight, with the supply of workers still scarce; one contact, however, mentioned some softening on the demand side. The rate of increase in wages reportedly has begun to moderate. Contacts are cautiously optimistic about the industry's future. All expect the usual slowdown around the holidays and some anticipate additional softening of the regional economy.

**Commercial Real Estate**

Commercial real estate in New England is doing well. Capital market problems in August created shortages of financing in September and October. As a result, sales prices of commercial properties in Boston have declined by 10 to 15 percent since August. By contrast, rental rates for prime downtown Boston office space have been rising and are about $50 to $60 per square foot. Suburban rental rates have
been flat for the past few months, having reached $40 per square foot. Contacts report very low vacancy rates for office and retail space. Vacancy rates for apartments are second lowest in the country, with particularly severe shortages of low- and medium-priced apartments. Some retail construction is occurring, but contacts report no speculative construction anywhere in the Boston area.

The rest of New England is mixed. Office vacancy rates in Greater Hartford are the lowest since 1989, but still the highest in the Northeast; rental rates for retail space have risen slightly, but the industrial sector has high vacancies and unchanged rental rates. New Haven and Stamford are doing very well, with low office vacancy rates and office rental rates up 12 percent in 1998; apartment vacancy rates are very low as well. Maine has seen a rise in office and retail vacancy rates during the past quarter. Rhode Island has a very strong industrial market, but little activity in its office market.

Contacts anticipate the Boston market will remain strong; the Greater Boston economy is sufficiently diversified to absorb any space that might be vacated by declining sectors of the economy. Vacancy rates in Hartford, however, may rise because of consolidation in the financial sector.

Nonbank Financial Services

Respondents at insurance companies report revenues in the second quarter of 1998 ranging from flat to up 25 percent. Mutual funds and variable annuities are responsible for much of the growth in sales. Employment changes range from 5 percent decreases to 4 percent increases. Most respondents note continued shortages of information systems personnel; as a result, they are relying more on outside contractors and raising base salaries and the amounts and types of bonuses. A number of respondents also note scarcity of accounting and investment management professionals.

The Outlook

The New England Economic Project (NEEP), a nonprofit forecasting group, released its semiannual five-year regional forecast in October. NEEP expects regional employment growth to slow to a range of 1.0 to 1.3 percent annually in the period 1999 to 2002, after exceeding 2 percent in 1998. Among industries, average annual job growth is projected to range from a low of zero in manufacturing to a high of 2.4 percent in services.
Economic growth in the District has been mixed but, on balance, stronger than in the last report. Most retailers report brisk sales in the last weekend of November, though retail sales for the month were generally below plan, mainly due to warm weather; discounters continued to out-perform department store chains. The housing market strengthened across most of the region in recent weeks, though sales of high-end Manhattan co-ops and condos were soft. New York City's office market remains tight—while vacancy rates have leveled off, rents continue to rise at a double-digit rate. Although the market for commercial properties in New York City continues to be somewhat hampered by credit tightening among lenders, most new projects (including three major hotels) are going forward.

Despite more layoff announcements on Wall Street, the local job market remains generally firm. Regional surveys of purchasing managers indicate a general pickup in manufacturing activity in October and November, along with continued brisk growth in non-manufacturing sectors. Finally, local banks report a further pickup in loan demand, tightening credit standards, and steady delinquency rates.

**Consumer Spending**

Despite brisk post-Thanksgiving business, most retailers report that sales in the region were on or below plan in November, as exceptionally weak sales of cold-weather merchandise more than offset strength in most other categories. Department store chains report that same-store sales were little changed from a year ago, while major discounters report gains of 3-6 percent. For the important post-Thanksgiving weekend, all major chains describe business as brisk, and a separate survey of small retailers across New York State indicates that their weekend sales were up 4-6 percent from a year ago.

Virtually all contacts say that unseasonably mild weather in the Northeast depressed sales of outerwear and various cold-weather accessories (antifreeze, heating devices, etc.); however, other categories, such as home goods, toys, electronics, and intimate apparel sold well in November.
Inventories are said to be in good shape, with the overhang in winter-related merchandise expected to dwindle with the next cold snap. Retail selling prices and merchandise costs were steady to down slightly, with prices for apparel (largely from Asia) generally lower than a year ago. Retailers report difficulty in staffing, with one contact describing it as “brutal”; however, most contacts say it is not much different from last year’s holiday season and none reports significant wage pressures.

Construction & Real Estate

The District’s housing market has taken on a firmer tone in recent weeks. Housing permits in New York and New Jersey surged in October—rising 58 percent from a year earlier—led by a wave of multi-family projects in New York City and northern New Jersey. Year-to-date, multi-family permits are up 22 percent from 1997, while single-family permits are up 14 percent. Moreover, New Jersey homebuilders report fairly strong traffic and sales in recent weeks. Builders in New York State say that the single-family market has improved across almost all of the state—even in the chronically sluggish central and western tiers. Builders in both states cite a severe labor shortage in skilled trades (carpenters, masons, roofers, etc.).

New York State realtors report that sales of existing single-family homes were brisk in October, rising 15 percent above year-earlier levels, while prices jumped 11 percent. The biggest price rises were downstate—especially in the lower Hudson Valley. Prices also rose in the Rochester area, and sales activity strengthened noticeably across most of upstate New York. A leading Manhattan brokerage reports that buyer traffic for prime Manhattan co-ops and condos rebounded from September’s sharp slump; however, in October and November, actual sales were roughly 30 percent lower than a year ago, while new listings were up substantially, and selling prices stabilized well below this summer’s peak levels. The weakness is attributed to concern about Wall Street layoffs and related income losses.

Manhattan’s office market remains exceptionally tight; although vacancy rates held steady at
low levels again in October, rents continued to rise at a double-digit pace. However, with commercial lenders tightening credit, some buyers have reduced bids on office properties and a number of deals have been put on hold. Still, an industry expert notes that most commercial developers are going ahead with projects, including the construction of three large hotels, which are due to be completed in 2000.

**Other Business Activity**

While reports on the District’s job market are generally positive, Wall Street layoff announcements continue. A recently announced merger between Bankers’ Trust and Deutsche Bank is expected to eliminate more than 2,000 in New York City; moreover, further job cuts and bonus reductions are expected at major banks and Wall Street firms. Still, this year, New York City’s private sector has registered its strongest pace job creation since at least World War II. Moreover, job growth in upstate New York, though still sluggish, has accelerated in recent months.

Regional purchasing managers’ surveys indicate some pickup in manufacturing activity in October and November, along with particular strength in non-manufacturing sectors. Buffalo purchasing managers report sturdy growth in manufacturing activity in both October and November. New York purchasing managers report a slowdown in the manufacturing sector in November, following brisk growth in October; growth in non-manufacturing sectors remains strong. Prices paid in the manufacturing sector continued to decline in November.

**Financial Developments**

According to a survey of senior loan officers at small- and medium-sized banks in the District, the overall demand for loans increased over the past two months. This rise was again driven by strong demand for residential and non-residential mortgages. There was also a continued strong increase in refinancing activity, which bankers attribute to the recent drop in interest rates. Bankers surveyed report a further tightening in credit standards—especially on commercial and industrial loans. Interest rates
for all loans declined over the last two months, led by the residential loan category, for which 79 percent of banks report lower rates. Similarly, a large majority of respondents report a decline in average deposit rates. Delinquency rates remained stable over the same period.
THIRD DISTRICT - PHILADELPHIA

Reports from most sectors of the Third District economy indicate healthy economic conditions, although weakness persists in manufacturing. Area industrial firms continue to report slowing shipments and orders. Retailers said sales for Thanksgiving weekend were good. Auto dealers saw a slight improvement in sales in November compared to October. Bankers reported generally steady loan volumes, although several noted slight increases in residential mortgage lending for new-home purchases. Real estate markets were strong, with continuing demand for offices and industrial buildings and a good pace of home sales.

The consensus outlook is for further modest growth in 1999. Manufacturers predict a slight rebound in demand for their products. Retailers foresee continued growth near the current pace. Bankers expect general business activity in the region to continue to move upward, albeit at a somewhat slower rate. Real estate contacts see no signs of a near-term slowing in home sales or commercial leasing and acquisition.

MANUFACTURING

Manufacturing activity in the Third District slipped in November. Industrial companies in most of the region’s major goods-producing sectors reported a slower rate of shipments and orders in November than in October. Industrial firms continued to report weakness in Asian markets. In addition, firms producing primarily for domestic markets indicated that demand for agricultural equipment and primary metals was also slowing. On balance, surveyed firms reported decreases in order backlogs and shortened delivery times. A reduction in working hours
during November was further evidence of slackening in the District's industrial sector.

Looking ahead, area manufacturers expect business to pick up in the next six months, although they are not forecasting strong improvement. Slight gains in shipments and orders are anticipated, but employment is expected to decline somewhat. Some companies whose business has increased sharply in the past few quarters, notably makers of transportation equipment and home building materials, expect growth to ease next year.

Prices in the industrial sector have been mostly steady. Three-fourths of the firms polled in November indicated that the prices of both inputs and outputs have not changed from the prior month, and there were more reports of price cuts than price increases. The consensus forecast among surveyed firms is that prices will remain mostly level for at least the next six months.

RETAIL

Most Third District retailers reported that sales during the Thanksgiving weekend were in line with their expectations. Sales increases for most of the stores contacted were in a range of 4 to 6 percent, in current dollars, from the year-ago period. As has been the case for much of the year, discount stores had better results than most other types of stores. Sales were strong for toys, jewelry, and traditional gift items, such as sweaters and jackets, but sales of winter coats and other outerwear were hampered by the warm weather that prevailed over the weekend. In general, retailers forecast a good holiday season, with a year-over-year increase for the fourth quarter about in line with the Thanksgiving weekend's store average of 5 percent. Merchants expect the high level of consumer confidence to bolster sales into the new year.

Auto dealers reported a slight increase in sales in November compared to October. Compared to year ago, however, the sales rate was flat. Nonetheless, dealers were generally
satisfied with the pace of business, although a few still said they were unable to obtain as many popular new models as they could sell.

FINANCE

Bankers contacted for this report generally indicated that loan volume outstanding at their institutions was level during November. Business loans were said to be steady, and most bankers continued to describe the market as very competitive. Residential mortgage demand was strong at all of the banks surveyed, and most of the activity was for refinanced mortgages, although some banks noted increases in mortgages for new purchases. Several banks reported that borrowers who refinanced were consolidating some other debt into the new loans. This shift and an increased usage of home equity lines were cited as reasons for the flatness in consumer loan volume that most banks reported.

Looking ahead, most of the bankers interviewed said they did not expect any major changes in current trends. Some reported that their reviews of business plans with commercial customers factor in slower growth in 1999 than this year. Similarly, banks’ consumer lending plans are based on some slowing in spending next year.

REAL ESTATE AND CONSTRUCTION

Commercial real estate remains healthy, according to contacts in most of the important market areas in the District. Construction of new offices has been continuing at a good rate, and sales and leasing activity increased during the third quarter. Rents and vacancy rates have been mostly steady in the region, except in some markets where demand for space has been increasing. Speculative construction is under way in suburban locations that have had increases in rental rates and declining vacancy rates. For suburban areas as a whole, recent estimates of the vacancy
rate average around 10 percent. In the Philadelphia central business district, the vacancy rate is 16 percent. Real estate contacts say demand and supply of office space in the city has begun to move into balance as expansion by law firms and service companies has begun to offset the impact of a recent series of corporate downsizings and relocations.

The vacancy rate for industrial buildings in the region has declined from 12 percent at mid-year to 11 percent at the end of the third quarter. According to real estate firms, new space has been coming on line at a rate sufficient to keep rents from rising in most areas; however, the conversion of older industrial buildings into retail and office space in some suburban locations has pushed up industrial rental rates in those places.

Residential real estate activity has picked up after a brief interruption that real estate professionals attributed to financial market volatility. Sales of both existing and new homes have risen in the past month. Builders and real estate agents report that demand has risen for "move up" buying, but price appreciation on existing homes and price increases for new homes were said to be slight.
General Business Conditions

The Fourth District economy shows mixed growth patterns. While business activity remains very strong in several industries, including construction, export-sensitive areas, such as agriculture and basic materials manufacturing, report a significant drop-off in sales and prices.

Temporary employment agencies report a continued strong demand for labor, and most remain unable to fill all vacancies. Skilled office and service industry workers are in especially high demand, resulting in added upward wage pressure.

Unions report that wages are increasing in the 3% to 4% range, up from the 2% to 3% range seen in 1997. Some unions have indicated heightened concern over job security due to fierce foreign competition. Still, organized labor sources in the District continue to report shortages of skilled labor, particularly in the construction trades.

Construction activity in the District is unusually brisk for the season, although the majority of respondents believe that speculative building has been on the decline. Residential building-cost increases were reported for land and, marginally, for labor. One contact estimated the growth in land prices approximately 10% for the year, compared with an estimated 3% to 5% for materials and labor.

The labor market continues to be relatively tight, but increased availability of commercial masonry contractors was noted. Residential builders continue to report difficulty securing subcontractors and report upward pressure on subcontracting costs.
Agriculture

The Kentucky tobacco harvest is expected to be good—only marginally below the high level of 1997, although there remains concern over the crop’s color and weight.

The District’s corn harvest is abundant and ahead of schedule, with yields expected to be about 10 bushels per acre higher than last year, or about 8% above their average yield of the past five years. Projections for the soybean harvest are strong in Ohio and Pennsylvania, but in Kentucky, where weather has been considerably drier, farmers anticipate their lowest yield since 1988. Some farmers are plowing under their poor soybean yields or harvesting them for silage.

Prices for most agricultural commodities are much lower compared to a year ago. In particular, corn and soybean prices have fallen 20% to 25% from 1997.

Industrial Activity

Manufacturing activity has varied since the mid-summer. Capital goods producers are seeing satisfactory orders and production, although few sources indicate any significant growth since July. One notable exception is the agricultural sector, where equipment sales have declined rather sharply. Heavy truck manufacturing continues at a near record level of orders and production, and industry sources are revising upward their 1999 sales expectations. Automotive parts suppliers are also seeing strong order growth.

Conversely, steel and chemical producers, which saw sharp declines in orders this summer, continue to report weakness resulting from import competition. Semiconductor firms, which saw a sharp falloff in orders this summer, report a small rebound in October, although business has remained significantly below last year’s levels.
Sources in the transportation and shipping industries, now entering the heavy holiday season, report a moderation in traffic since earlier in the year. Nevertheless, shipping activity remains high and domestic freight prices are holding steady. Container traffic from Asia, although still very strong, has leveled off somewhat from its seasonal peak of last a month. Export activity remains weak.

**Consumer Spending**

Retail sales, which softened in October, picked up a bit in early November. Furniture sales have been particularly strong since the last District report, and many stores report sales running above last year's strong season. Housewares are reported to be selling well, while unseasonably warm weather is blamed for recent weak apparel sales.

Retailers are optimistic about the holiday shopping season. Most expect holiday sales to be at least as good as last year's strong performance. Most stores report that inventories are "on plan" and there are no plans to alter pricing. Retailers maintain that the labor market is tight, and many expressed difficulty in finding qualified workers for the holiday season. The result is that retailers are paying up to 25% over last year's wages for seasonal help.

Despite continued strong showroom traffic, sales of new automobiles have slowed significantly from their robust summer pace, even after adjusting for the industry's seasonal pattern. As a result, dealers report full-to-heavy inventory levels for most models, with the notable exception of light trucks and sport utility vehicles, where stocks remain thin. These shortages are especially acute for GM dealers, where truck and sport utility vehicle inventories are still struggling to rebuild following this summer's strike.
Banking and Finance

District lending activity is mixed for both commercial and consumer loans. Consumer loan demand is somewhat soft, though mortgage refinancing is quite strong. Demand for commercial loans has strengthened at most, though not all, of the banks contacted.

Loan delinquencies are holding steady at relatively low levels, but credit quality is mixed. Some banks report a modest tightening in credit standards, while others indicate that margins are still deteriorating and competition for borrowers is very tight. One source reported an easing of competitive pressures as foreign banks have reduced their presence in the syndicated loan market.
FIFTH DISTRICT - RICHMOND

Overview: The Fifth District economy continued to expand at a moderate pace in the weeks since our last report. Many firms in the service sector reported a pullback in revenues, but manufacturing output rebounded after several months of decline. Retailers reported somewhat higher sales in November and a good start to the holiday sales season, despite unseasonably warm weather which dampened enthusiasm for winter apparel. Real estate activity picked up; commercial developers were particularly upbeat in light of the rebound in the stock market. Loan demand was strong and lending was brisk at District banks. In labor markets, wages grew moderately and worker shortages persisted, despite continued declines in District manufacturing employment. Fair weather in late October and November boosted tourism, but brought little relief to moisture-starved crops and pastures.

Retail: Retail sales rose only modestly through the first three weeks of November, but ended the month on a strong note. Most retailers reported that their sales reflected normal seasonal momentum prior to Thanksgiving, even though shopper traffic was noticeably higher. However, retailers reported busy stores and robust sales during the weekend following the Thanksgiving holiday. Several contacts said their sales would have been even stronger without the unseasonably warm weather which hindered sales of winter lines. A department store manager in Charleston, S.C., noted that “it’s hard to be in the holiday spirit when it’s 75 degrees outside.” Retailers continued to struggle to find holiday help; a Richmond, Va., retailer said there was a “terrible labor shortage” in his area. Retail wages were higher in most areas.

Services: Activity in the services sector edged lower in November, as business-service firms and airports reported revenue declines. Contacts at law and accounting firms indicated that their November billings held up well, but paled in comparison to October’s unusual strength. A source at an airport reported that revenues decreased because a low-cost airline “pulled out,” which allowed other airlines to raise fares and led to an overall decrease in airline traffic. Employment remained little changed while wage growth moderated across the District. Service providers continue to expect increased demand over the next six months; businesses that provide financial services were especially optimistic.
**Manufacturing:** Manufacturing activity picked up in November. Shipments increased in most goods-producing industries, underpinned by an uptick in customers’ confidence. An industrial machinery producer said his customers had been “on the fence” in recent months, but now were going ahead with orders. The average workweek stabilized after tumbling in October, even though manufacturers in several sectors continued to trim their workforce levels. A drop in tobacco employment was attributed to ongoing efforts to “streamline” operations, while contacts said that textile firms lowered payrolls because they continued to lose business to foreign competitors. Looking ahead, manufacturers were more optimistic about shipments and new orders in coming months, but expected employment to continue to trend downward.

**Finance:** District banks reported strong lending activity in the period since our last report. Residential mortgage lending benefited from a solid housing market and steady refinancing activity while lower interest rates buoyed commercial lending. Most bankers reported little change in their loan standards in November, but several indicated that caution prevailed as they peered “down the road” for signs of recession. While few believed that a substantial slowing in the economy was imminent, several anticipated a normal throttling back of mortgage lending activity in coming weeks as potential customers turn their attention to the upcoming holidays.

**Real Estate:** Realtors described District housing markets as generally strong and stable in November. Although a few realtors noted some “seasonal slowing” in the rate of home sales in recent weeks, most were quick to point out that sales in their areas remained very good. Only modest price increases were reported. A realtor in the District of Columbia expressed surprise that prices in his area were not advancing faster, quipping that perhaps the “law of supply and demand” no longer applied there. Homebuilders reported generally strong housing starts because of low interest rates and improved consumer confidence. Reports of higher labor and materials costs were more widespread. A builder in Rockville, Md., told us that labor costs were “going through the roof” and that there continued to be shortages of all types of building subcontractors. Other contacts noted that drywall and insulation prices had risen sharply in recent weeks.

Commercial real estate activity picked up in recent weeks, driven higher by a rebound in stock prices and consumer confidence. Realtors in both West Virginia and North Carolina noticed that a growing proportion of doctors, engineers, and attorneys were buying
their offices rather than leasing. The exodus of these professionals combined with new product coming on line contributed to an increased availability of Class A space in these areas. In contrast, realtors in Maryland, Washington, D.C., and South Carolina expressed growing concern about shortages of available space.

**Tourism:** Tourist activity was strong in November. Bookings at District resorts for the Thanksgiving holiday were well above those of a year ago; a contact on North Carolina’s Outer Banks suggested that much of the increase in his area was driven by Christmas shopping at area outlet malls. Resorts in mountain areas also enjoyed increased activity. A source at a ski resort in Virginia reported that sales of time-shares rose considerably and that tourists were spending more. Contacts noted that skiers were more interested in buying state-of-the-art skiing equipment rather than second-hand merchandise. District sources expected tourist activity to strengthen further during the next six months.

**Temporary Employment:** Strong demand for temporary workers persisted across the District in recent weeks. Workers with technical and clerical skills were particularly sought after throughout the region; a contact in Greenville, S.C., reported that industrial skills, including packaging and assembling experience, were in short supply in her area. Several temporary agencies noted an increase in “temp-to-perm” workers, as employers attempted to secure quality help while it was still available. Contacts reported little change in the wages that their placements received and did not foresee substantial changes during the next few months.

**Agriculture:** District agricultural analysts continued to report that topsoil moisture levels were short to very short in many areas. Pasture conditions were generally described as poor and deteriorating, leading to concerns about the adequacy of hay stocks. In Virginia, farmers increased their supplemental feeding of cattle and continued to use private wells to assist in watering livestock. On a brighter note, corn harvesting neared completion in Maryland and West Virginia and winter wheat planting was ahead of schedule in most areas.
VI-1

SIXTH DISTRICT – ATLANTA

Summary: The pace of current economic activity weakened again slightly, but the outlook among business contacts remains positive. Retail sales have been generally flat across the District since our last report and inventories remain high. The pace of new home construction has changed little, while new home sales have improved somewhat. The manufacturing sector is currently described as soft, and overall loan demand continues to be mixed. The tourism sector has been especially hard hit in Florida by declines in the Latin American economies. Tight labor markets continue to put upward pressure on wages and impact business growth, while prices have been generally stable.

Consumer Spending: Overall comments from District retailers indicate that retail sales during October and early November in the region have been flat. About half of the merchants contacted said that recent sales levels had fallen below their expectations and most said that inventories were currently high. Apparel sales have been mixed. Several retailers attributed slow apparel sales to unseasonably warm weather. As a result, half of the contacts said that discounting was greater than normal for this time of the year. However, most merchants continue to expect that fourth quarter and holiday sales will be up slightly compared with last year, and are currently optimistic about good post Thanksgiving Day weekend sales.

Construction: Most District builders contacted reported that the pace of single-family home construction in October and early November was similar to our last report, flat-to-slightly up on a year-over-year basis. However, new home sales improved from our last report. Realtors and builders continue to report balanced housing inventories; however, builders in areas of Georgia and Florida complain that there is a shortage of suitable lots. Looking forward, about half of the Realtors contacted expect home sales during the fourth quarter to exceed last year’s levels,
while most builders expect new home construction to be flat in the fourth quarter. Commercial construction within the District remains at strong levels. After moderating recently, District multifamily permits have rebounded somewhat.

**Manufacturing:** Production and new orders for the region’s factory sector are soft compared with a year ago, but the outlook remains generally positive. Contacts report that the District’s paper producers continue to cut back operations, pare inventories, and scale back capital expansion plans because of decreased Asian demand. New orders and the factory workweek continue to decline for apparel producers. There are more reports that regional steelmakers are operating far below capacity and are laying off workers because of foreign imports. Low oil prices are causing oil companies, engineering firms, and related fabrication shops to reduce payrolls. More positively, Louisiana’s petrochemical industry continues to benefit from low energy prices and is planning robust capital spending over the next two years. New orders have increased for manufacturers of building products and a large producer of lumber and wood products. Companies producing transmission products for digital communications and computer data storage products have announced expansion plans. Some of the District’s aerospace firms are adding to factory payrolls.

**Tourism and Business Travel:** The outlook is less upbeat for the tourism and hospitality sector. Negative fallout from turbulence in foreign markets is adversely affecting south Florida and Florida’s Gulf coast because of the decline in Latin American tourists. South Florida’s high-end resorts report strong seasonal bookings. However, decreased forward bookings and occupancy levels at some moderately priced south Florida hotels are prompting concern that middle income tourists may opt to stay home this year. Although strong bookings are reported by central Florida hoteliers, they fear that many Canadian tourists will stay away because of the
weak Canadian dollar. Statewide revenues from riverboat casinos in Louisiana have been adversely affected by hurricanes and storms, but the gaming industry continues to expand in the region.

**Financial:** Bankers throughout the Sixth District report that overall loan demand has been mixed by type of loan lately. Consumer and automobile loan volume remains healthy, and mortgage demand continues to be strong as consumers continue to consolidate and refinance debt. There have been some reports of slowing on the commercial loan sector side as commercial real estate and speculative financing have become more selective. Consumer and commercial loan quality have held steady.

**Wages and Prices:** Finding and retaining workers continues to be difficult, and this is affecting business expansion and putting upward pressure on wages. Contacts say that their most common concerns are the cost and availability of labor. One contact notes that any capital investment he makes is to increase efficiency and decrease labor costs. Contacts, also, point out that employee retention sometimes requires increased perks and benefits in addition to salary increases. In one case, a dearth of qualified laborers is limiting the ability of a commercial contractor to bid on additional projects.

Most industry contacts indicate a stable price picture. Contacts continue to report relatively low oil, paper, and steel pricing with little chance for an upturn in the near term. Foreign and domestic competition is expected to continue to hold back price increases for most material and finished products in the foreseeable future. The healthcare industry was the only sector reporting notable pricing increases for this beige book.
Summary. The Seventh District economy remained strong in October and November, although pockets of softness persisted. Retailers were generally satisfied with Thanksgiving weekend sales results as traditional gift items sold well. Home sales remained strong and builders’ expectations for the new year were buoyed by Federal Reserve actions to cut interest rates. Manufacturing activity was generally high despite further softening in some key industry segments. Bankers remained somewhat cautious amid continued strong demand for both business and consumer loans. Midwest labor markets were much tighter than the nation as a whole and retailers were finding it harder to fill seasonal positions than a year ago. District farmland values dropped slightly during the third quarter, the first quarterly decline since 1986. Hog producers again sustained losses from sharply lower prices while dairy farmers continued to benefit from high milk prices.

Consumer spending. Retailers reported that sales were generally in line with their expectations going into the holiday season. Contacts indicated that traffic through retail outlets was very heavy over the Thanksgiving weekend. Sales were good, but were not in line with the heavy traffic, suggesting to some contacts that many customers were simply browsing rather than buying. Contacts with a national presence generally reported that sales gains in Midwest stores were slightly better than the rest of the nation. Items cited as selling well included seasonal and traditional gift items (such as toys, novelty apparel, shirts and neckties for men, robes for women, etc.) while winter apparel languished on the shelves as a result of unseasonably warm weather. Overall inventory levels were reported to be in line with sales expectations and only one contact noted a greater-than-normal increase in promotional activity. District auto dealers reported that sales remained strong, despite a normal seasonal slowdown.

Housing/construction. Overall housing and construction activity was generally robust in October and November. A national survey of homebuilders suggested that November sales in the Midwest region increased substantially from October and ran well ahead of year-ago results. Homebuilders’ optimism was also buoyed by Federal Reserve actions to cut interest rates, leading to much higher sales expectations for the coming six months. Realtors reported that sales of existing homes remained very strong in October and November. Contacts noted that the normal seasonal slowdown in sales failed to materialize this year and, in some cases, actually increased noticeably. A large realtor in the Chicago metro area indicated that existing home prices continued to appreciate in
the 5 percent to 7 percent range as a result of the very active market. Apartment space remained tight in most areas and rents were reported to be increasing slightly, yet there was no noticeable change in building activity in this market. Nonresidential activity also remained robust although there were a few more reports of large projects, particularly in office and hotel developments, being scaled back. Some contacts indicated that the less ambitious plans were not entirely unwelcome at this point in the business cycle.

Manufacturing. Manufacturing activity generally remained strong in the District, although some key industries softened further. Strong national sales kept manufacturers of light vehicles producing at very high levels in October and November, and new orders remained strong, particularly for light trucks. Pricing remained very competitive for light vehicles and incentives were expected to remain high into the first quarter of 1999. Producers of construction and mining equipment reported continued strong sales and new orders as well as inventories that were generally in line with sales expectations. Production of and new orders for heavy trucks were also strong, although reports of canceled orders (some with substantial deposits) persisted. However, producers of agricultural equipment continued to "take it on the chin," according to one contact. Cutbacks in production resulted from an increasingly pessimistic sales outlook and high inventory levels. Contacts in the steel industry also remained pessimistic. Softer new orders and very high inventories led to production cutbacks, with one contact reporting that capacity utilization in the industry had fallen to around 80 percent and was perhaps still slipping. The pricing power of producers in both the steel and agricultural equipment industries remained very soft as a result of dwindling demand.

Banking/finance. Overall lending activity was similar to that noted in our last Beige Book report. Consumer lending was moderately stronger, again buoyed by strength in housing markets. Both new originations and refinancing activity continued at a strong pace as mortgage interest rates remained at very low levels. Terms and standards on consumer loans were reported by nearly all contacts to be unchanged in November. Commercial lending activity was also reported to be brisk. Contacts suggested that recent interest rate cuts by the Federal Reserve and prime rate cuts by commercial banks had reassured some commercial borrowers who were concerned about the availability of credit. While most bankers indicated that business loan demand increased moderately, terms and standards were generally tightened somewhat for most types of business loans. Small companies were less likely to see changes in the terms and standards for loans than were larger borrowers.
Labor markets. Labor markets remained very tight in the District and much tighter than the nation as a whole. A national survey of hiring plans indicated that employers in the Midwest remain the most optimistic of any region in the country about their hiring and expansion plans. The only reported source of labor market softness was in the manufacturing sector, particularly in durable goods. Seventh District producers of agricultural equipment cut back production and laid off some workers recently, and contacts suggested that further cuts could be in the offing. In contrast, employers in the construction and trade industries, both wholesale and retail, were very optimistic about their staffing levels heading into the new year. Skilled construction workers remained in short supply as a result of the extraordinary strength in housing markets. Retailers reported that finding holiday help was more difficult than last year, and the hiring plans survey indicated fewer than normal layoffs in both the wholesale and retail trade sectors. There were no new reports of intensifying wage pressures although a few contacts suggested that moderately rising health care insurance costs may exert additional pressure on overall employment costs.

Agriculture. The region’s corn and soybean harvest was nearly complete by late November, with only a few farmers left finishing up in their fields. Available storage space for grain was reported to be tight in some areas, but the extent to which it was necessary to temporarily store grain on the open ground has not matched earlier concerns. Grain prices moved higher in the first half of November, yet remained well below year-earlier levels. Anecdotal reports indicated that tight farmer holding of grain and additional export sales contributed to the seasonal price gains.

District hog producers continue to sustain losses. Cash hog prices in the Midwest trended lower and in late November were 60 percent below a year earlier. The sharp price decline was spurred by record-large hog marketings and tight packer capacity. In contrast, dairy farmers continued to benefit from record-high milk prices.

A survey of agricultural bankers in the Seventh District indicated that farmland values registered a decline of 1 percent during the third quarter, the first such decline since 1986. Moreover, a majority of the respondents expect another decrease during the fourth quarter. Bankers also stated that the pace of loan repayments was slower than a year ago and that requests for loan renewals and extensions were up. Although bank contacts indicated that most of their farm borrowers are in good financial shape and able to weather the current downturn, they expressed concern over the financial performance of hog producers and the duration of low commodity prices.
Summary

District contacts, while still reporting tight labor markets in their communities, are seeing some moderation in the rate of economic growth. Retail contacts expressed satisfaction with November sales activity and are generally optimistic about the holiday season. The latest Manpower survey suggests a slight pullback in hiring plans for the first quarter of 1999 compared with a year earlier. Housing markets remain strong, although growth in new construction has been waning. Nonresidential construction has slowed across the District. While loan demand remains strong at large District banks, several bankers report a modest tightening of loan standards for corporate borrowers. Farm sector contacts report that low commodity prices have significantly pared sales of farm machinery and agricultural chemicals compared with a year earlier.

Consumer Spending

General retailers report that year-over-year sales growth averaged 4 percent in November—a result that generally met expectations. Most of those surveyed indicated that their inventories were at desirable levels or just a little bit high. Contacts report that balmy weather throughout the District kept many shoppers out of the malls the weekend after Thanksgiving, although the effect on sales figures has not yet been tabulated. Nevertheless, retailers are optimistic about this year’s holiday season and most are positive when looking toward the new year.

Automobile dealers said sales growth was about 5 percent on average for November when compared with a year earlier. Almost all of the dealers indicated that they are currently, and plan to continue, using sales incentives, and most are content with their current inventory levels. Some dealers are very optimistic about sales in the first quarter of 1999 but, in general, dealers anticipate only modest sales growth.
Manufacturing and Other Business Activity

District contacts remain optimistic about economic conditions. Although they believe the overall pace of activity has slowed somewhat, contacts also see an economic resilience that’s being bolstered by strong housing markets and stable consumer spending. Employers note that their continuing difficulty filling vacancies is a sign that tight labor markets have not really turned around yet. Still, reports of unusually high wage increases because of the labor market situation are scarce.

For the most part, businesses related to home construction and home improvement are experiencing strong orders and sales. The furniture industry, for example, continues to receive a steady stream of new orders. A contact who provides custom interior architectural design has also seen strong sales lately. Transportation companies have seen some pickup, too. One railroad company is embarking on a long-term plan to boost capacity and employment. Foreign sales for some companies, however, have almost dried up. Weak Asian economies have affected industries like poultry and lumber.

Labor Outlook

According to the latest Manpower survey of businesses in the four major Eighth District cities, firms are expected to tone down their hiring plans during the first three months of 1999 compared with a year earlier. On average, the percentage of firms expected to add to their payrolls in the first quarter of 1999 exceeds by 8 percentage points the portion expected to pare their workforces. This net increase averaged 19 percentage points three months earlier and 9 percentage points a year earlier. Hiring prospects are the most upbeat in Little Rock and St. Louis, with somewhat less optimism expressed in Louisville.

Real Estate and Construction

Although there has been some slowing in monthly permit issuance for residential construction, year-to-date permits are up in almost all of the District’s 12 metropolitan areas. Sales
of new and existing homes remain strong, and median prices (year-over-year) continue to increase. Nonresidential construction, however, has tapered off. Short of some major projects already in the works, most nonresidential builders are taking a “wait and see” approach.

**Banking and Finance**

Several senior loan officers in the District report that they have recently tightened standards for approving commercial and industrial (C&I) loans to all sizes of corporate borrowers. The officers cite a less favorable or more uncertain economic outlook and a worsening of industry-specific problems as reasons for the modest tightening. Demand for C&I loans is still reported to be strong, as is demand for residential mortgage loans. Consumer loan demand is reportedly unchanged from three months earlier.

**Agriculture and Natural Resources**

The fall harvest is nearly complete in all areas. Surveys and anecdotal reports indicate that yields on the District’s corn crop were well above last year’s in most areas. For the most part, soybean yields are off slightly from a year earlier. In the southern portions of the District, an unusually dry growing season reduced cotton yields measurably; combined with fewer harvested acres, total crop production in Arkansas, Mississippi, Missouri and Tennessee is expected to drop 25 percent from a year earlier. Reports from contacts in Arkansas and Mississippi suggest that sales from chemical and farm implement dealers are down markedly from a year earlier because of low commodity prices. Reduced demand from Asian markets has caused a substantial cut in wood chip production. Moreover, pulp prices are reportedly the lowest in a decade.
As 1998 draws to a close, the Ninth District economy displays great strength as it has throughout most of the year. Consumers continue to spend at record levels. Construction activity is robust in most areas. Manufacturing output is strong overall, and many plants continue to operate near capacity. The primary commodity sectors including agriculture, oil, mining and logging continue under pressure from low prices. Loan growth has slowed for banks, which continue to generate strong profits. As throughout the year, labor markets are tight in many areas, but compensation cost increases remain limited. There is little evidence of price pressures at consumer levels.

**Consumer spending and tourism**

“Our holiday push started way back in mid-September,” says a representative of Minnesota’s largest mall, who described most stores’ sales growth over 1997 as “in the high single digits.”

“The warm weather is really helping; we have a lot of traffic,” reports a South Dakota mall official who described strong buying the day after Thanksgiving. Other retail sources also reported very good sales for the Thanksgiving weekend. Retailing remains very competitive, but consumers are spending at record levels in urban areas, according to merchants and state finance officials. Only small town merchants in agricultural areas report slow sales.

Auto sales are described by dealer representatives as generally strong, with a continuing preference for light trucks and sport-utility vehicles. Dealers in farming areas are an exception to this generally positive picture.

The summer and fall tourist season was one of the best in recent years, due in part to low gasoline prices. Lack of snow has delayed winter recreation activity in some areas, but business owners are generally optimistic.

**Construction and real estate**

“Shortage of rental housing a crisis,” headlined a November story in a Minnesota business newspaper. In response to such tight housing markets, multifamily construction in the state continues well above year-earlier levels. Single-family building remains robust in most urban
areas. Office tower building is at the highest rate in 11 years in Minneapolis-St. Paul. General commercial building and heavy construction are also robust. Unseasonably warm weather in late November has been very favorable to builders in many parts of the district.

Manufacturing

Manufacturing output is generally described as strong, with little change as the year ends. Manufacturing employment is only about 1 percent above 1997 levels, but plant owners frequently state that productivity increases allow them to expand output at a higher level and that they are running at or near capacity. Printing capacity is highly utilized, and press scheduling has been very tight. The district's only auto plant, which produces pickups, has had strong orders. However, firms for which exports to Asia and Latin America are important continue to experience slackness, as do manufacturers of agricultural implements.

Banking

Reportedly, loan growth has slowed somewhat from late summer across the Ninth District, but competition in making loans remains fierce. “Banks are knocking each other out” to get good commercial loans, remarked one banker. “It's a real fight these days.” Slippage in the credit quality of agricultural loans was reported in some areas of the district. Banks are reportedly responding by increasing their reserves for loan losses. Banks in some areas are also reportedly tightening credit due to adverse agricultural conditions. Profitability is expected to be consistent with 1997 performance, mostly due to very strong first and second quarters in 1998.

Agriculture

Agriculture remains financially stressed. Prices are low for most Ninth District farm products except milk. But preliminary responses to a Minneapolis Fed fourth quarter survey of ag bankers reveal some hope that October upticks in grain prices bode well for improvements in their customers' income and spending. With all the harvest in, the 1998 crop was record setting for most farmers. High output and slow sales by farmers have resulted in a storage crunch, with large quantities of corn in temporary storage on the ground. Dairy farmers continue to face very favorable milk/feed price ratios.
Energy and mining

Once again, natural resource industry output shows little change from earlier in the year. Oil, gas and coal output is reportedly stable, with little new leasing or drilling. Copper and gold mine output is stable, though passage of an environmental initiative in Montana will limit new gold mining operations. Iron mines are finishing the year with output near earlier projections, but expect reductions in 1999 because of import competition. One Montana logging company will furlough 45 workers largely due to reduced demand in Asia.

Employment, wages and prices

Tight labor markets continue as a difficult problem for business. Unemployment rates are low and largely stable in most parts of the district. Even in Michigan’s Upper Peninsula, usually the Ninth District’s most sluggish labor market, unemployment has dropped below the national average. As before, employers report increases in starting wages and nonwage compensation, but there is little evidence of any sharp escalation in labor costs. In Minneapolis-St. Paul, hourly earnings in manufacturing are up about 2.5 percent from a year ago. There are few price increases at the producer or consumer levels. Gasoline is available at less than 90 cents per gallon in some areas, and red meat is often highly discounted in supermarkets.
Overview. The district economy grew moderately again last month, but signs of easing are still present. Retail sales rebounded, and automobile sales enjoyed a good month. Construction activity also remained fairly solid, although housing starts continued to grow at a slower pace than earlier in the year. Manufacturing activity last month was flat and expectations about the future are substantially lower than in recent past. The energy sector slipped back into decline, as oil prices began falling again. In the farm economy, corn and soybean yields came in above average, while hog producers experienced sizable losses. Labor markets remained very tight in most of the district, with slightly less evidence of wage pressures than in our last survey, especially in the manufacturing sector. Prices were subdued at the retail level and mixed for construction materials, while prices for most manufacturing materials continued to decline.

Retail Sales. Retailers reported a rebound in sales last month and expect a strong holiday season. Inventories expanded in preparation for the Christmas season, and most managers are satisfied with current stock levels. However, most retailers plan to reduce stock levels after the holidays. Automobile sales recovered nicely last month, led by strong performance of trucks and sport utility vehicles. Sales are now moderately above year-ago levels. Dealers are cautiously optimistic about the near future as some seasonal decline in sales is expected over the next few months. Following the GM strike, dealers have been vigorously expanding vehicle inventories and expect further expansion in the near future. More dealers reported a tightening in consumer credit compared to the recent past.

Manufacturing. Tenth District manufacturing activity was largely unchanged last month, with plants operating at lower levels of capacity than in the first half of the year. Manufacturing materials were generally available, and lead times again declined slightly. Managers were less satisfied with inventory levels than in the recent past, and most plan to continue cutting back.
quarterly survey of district manufacturers indicated that, by most measures, growth in the sector slowed from the previous survey. New orders for exports declined as a result of weak foreign markets. Survey respondents were substantially less optimistic about the future than in the recent past.

**Housing.** Construction activity remained solid as housing starts continued to grow at a healthy pace, although more slowly than the brisk rates registered earlier in the year. Despite a slight decline in sales of new homes, builders were somewhat more optimistic about future activity than in our last survey. Inventories of unsold homes were practically unchanged from the previous month as slower activity was matched by slower sales. Lenders reported that mortgage demand declined slightly last month, as refinancing activity slowed but remained well above year-ago levels. Reflecting lower mortgage rates, lenders were more optimistic about future demand than they have been in the recent past.

**Banking.** Bankers reported that both loans and deposits were stable last month, leaving loan-deposit ratios unchanged. Demand increased for both commercial real estate loans and home mortgage loans, with refinancing accounting for most of the growth in the latter category. Other loan categories were little changed. On the deposit side, decreases in NOW accounts were offset by increases in money market deposit accounts.

All respondent banks decreased their prime lending rate at least once during the last month. Most banks lowered their consumer lending rates, although a few left these rates unchanged. Most banks do not expect to lower their prime rate or consumer lending rates in the near future. A few banks tightened lending standards, and some banks indicated they were less willing to make agricultural loans due to lower commodity prices.

**Energy.** District energy activity began falling again in October and November, after a brief period of modest gains. The district rig count reached a new low, down 7 percent in October and another 10 percent in November. The decline in activity was expected since oil prices started to edge
down again after a few weeks of small gains in September. The price of West Texas Intermediate crude fell below $12 per barrel by the end of November. Natural gas prices posted a 4 percent rise in October, but both oil and gas prices remained more than 35 percent below year-ago levels.

**Agriculture.** District producers report that corn and soybean yields were well above average in most areas. Most of the wheat pasture in the district is doing well with favorable growing conditions, although there may be somewhat less pasture available due to the late planting of the wheat crop. With hog prices at the lowest levels in nearly 30 years, producers in the district are experiencing losses close to $35 per head. Many small hog producers in the district are liquidating their herds. District bankers report that their overall farm portfolios have deteriorated from a year ago and concern is rising. Most bankers do not expect significant repayment problems or foreclosures this year, but bankers expect many borrowers to carry over operating debt into next year. In spite of low commodity prices, farmland values and cash rents in the district have remained stable.

**Wages and Prices.** Labor markets remained very tight in most of the district, with slightly less evidence of wage pressures last month than in our previous survey. Labor markets are especially tight in areas such as Omaha and Denver, and in some sectors such as construction. Retailers continued to complain of a lack of entry-level and general sales workers, and manufacturers faced difficulties finding both skilled and unskilled production workers. Builders again reported labor shortages across the board, with the greatest need existing for framers, roofers, and carpenters. Wage pressures continue to be greatest in the retail and construction sectors, although pressures appear to have eased slightly for retailers and considerably more for manufacturers. Retail prices were practically dormant last month and are expected to remain stable in the near future. Prices for most manufacturing materials continued to decline and are likely to drop further. For example, prices are especially low for steel due to the Asian crisis. Prices of a few construction materials, such as cement and concrete, edged up last month.
ELEVENTH DISTRICT--DALLAS

Economic growth in the Eleventh District continued to gradually cool in November. Overall manufacturing activity was weaker, and drilling activity continued to plummet. Demand for business services was somewhat softer, with the exception of temporary service firms which reported a pick up. Retailers said sales activity has been weaker than expected. Sales were strong or increasing for some manufactured products, and construction activity remained at very high levels. Financial service contacts reported tighter credit standards and strong deposit growth. Harvest is winding down for most crops, but the financial situation remains poor for many agricultural producers.

Prices. There continued to be numerous reports of price declines, particularly for manufactured and energy products. Although there were scattered reports of rising prices from some real estate and service contacts, these reports were less widespread than have been reported for several years. Import competition and falling input prices led to further price declines for most metals and all types of paper. Lumber prices fell 10 to 15 percent over the past six weeks, and contacts say their customers and distributors have reduced inventory in anticipation of further price declines. Crude oil prices dropped below $12 per barrel, the lowest nominal level in 12 years. Gasoline and heating oil prices are low, and inventories are high. Natural gas prices were up sharply in early November, but have since declined. Weak natural gas prices are expected unless a cold weather materializes, because storage is 10 percent higher than last year and nearly 100 percent of capacity. Petrochemical and plastic prices have stabilized at low levels. Inventories are down for some petrochemical products, such as ethylene, because of numerous maintenance outages and hurricane-related shut downs. Prices continued to fall for personal computers and telecommunications products, although contacts said prices were not falling as fast as “usual” because costs are not dropping significantly. Cement prices continued to increase, but contacts say there is more resistance to price increases, and prices are expected to soften next year.

Some labor markets remain tight, and wages in those industries are rising, particularly for highly technical positions, business services and the retail industry. Retail contacts say workers are “not what you want when you find them.” Temporary service firms are still having trouble finding enough workers to fill
customer requests. Some high tech contacts say the industry has turned its focus to retaining workers rather than hiring. Telecommunications firms said wages are competitive because of the lack of technical/skilled workers, but pressures are not as intense as they were 3 months ago, partly because firms are focusing more on expanding capital rather than labor.

**Manufacturing.** Manufacturing activity continued to weaken. Demand was strong for most construction-related products and some high-tech products, but energy-related manufacturing continued to decline. Import competition remains intense for some industries, with plant or line shutdowns expected in lumber and paper. Lumber remains in oversupply despite strong demand from the construction industry. Domestic demand for paper products is also strong, but global demand remains weak, and inventories are up. Globally, plant shut downs are expected to reduce worldwide excess paper capacity by 50 percent or more. Cement producers say the softening reported in the last beige book appears to be solely due to poor weather, and activity has returned to high levels. Brick demand was strong, and gypsum wallboard sales have been so strong that customers are on allocation for this product. Demand for metals was “fairly strong” but less than expected for some products. Metals producers are receiving new orders from the construction industry but expect these to slow. Demand for telecommunications products continued to grow, although contacts said competition has become more intense, and additional mergers are expected. Personal computer sales increased. Demand was up slightly for semiconductors, and contacts say inventories have stabilized, but they are cautious that a weakening domestic economy could halt the recovery. Demand remains weak for downstream energy manufacturers, although producers benefitted from the drop in oil prices in November. Refiners say demand for gasoline and heating oil has been weaker than they hoped, and producers anxiously await cold weather. Low export volume has left the chemical industry with oversupply. Contacts believe the industry has bottomed out, albeit at a very low level.

**Services.** Demand for business services was softer, with the exception of temporary service firms who said demand was up over the past month. Legal firms reported slower mergers and acquisition activity, but stronger corporate bankruptcies and restructuring activity. Demand for consulting and accounting services was softer, due to the slow down in commercial real estate activity and the end of year 2000
activities for many companies. Transportation firms reported strong demand for retail shipments and air passenger traffic, but weak shipments of chemicals and oil, especially agricultural chemicals.

**Retail Sales.** Retailers said sales were softer than expected in November, although most contacts thought sales remained “good.” Some expressed concern that the consumer may be pulling back, while others are optimistic that “a good cold snap” will spur sales. Thanksgiving sales were mixed, and most retailers agree that Christmas has started slowly. Heavy homebuilding has boosted furniture sales, however, with stores reporting double-digit gains over last year. Sales to Mexican nationals continued to be below expectations. Auto sales picked up, which contacts attribute to increased dealer rebates.

**Financial Services.** The financial service industry reported continued strong deposit growth, with a few seasonal dips in delinquency rates and loan demand. Most banks reduced their prime and deposit rates, and tightened credit standards. Contacts said that much of the financing for large commercial projects, that disappeared in September, has returned to the markets.

**Construction and Real Estate.** Construction activity remained at very high levels, with housing starts still growing strongly. Labor shortages continued to cause delays. New and used home sales grew at a strong rate, although weakness was reported in Houston. A drop in the availability of funds for lending by REITs has caused an increase in interest rates for commercial projects. Contacts continued to voice concern about overbuilding in the industrial market in some areas.

**Energy.** Drilling activity continued to plummet, both within the District and around the world, reducing demand for the region’s oil field machinery and services. Drilling is declining faster in Texas than in the rest of the United States, down 38 percent over the last year, with the area around Midland and Odessa hurt the worst, with declines of 50 to 60 percent. Oil service and machinery firms say the cancellation of large orders has shrunk backlogs. Day rates for some rigs are near variable cost, and some service companies are offering to take equity stakes in exploration ventures rather than cash. Contacts believe producers are pulling back hard, preparing for a prolonged period of low oil prices.

**Agriculture.** Harvest is winding down for most crops, but the financial effects of the year’s drought and low commodity prices will not be resolved for some time. Wet conditions hampered some harvesting and damaged cotton fields in North Central Texas. Livestock conditions remained good overall, with some supplemental feeding.
Summary

Reports from Beige Book contacts indicate a moderate pace of economic growth in most 12th District states during this survey period. Retailers reported modest sales growth in recent months, while service providers in the District noted an acceleration in growth above an already rapid trend. Manufacturing activity slowed further in recent weeks, damped by declining demand for exports and inventory imbalances in the high-tech sector. District agricultural conditions remained weak, as below average yields, low quality harvests, and soft prices continued to depress profits. Residential and commercial real estate activity was healthy, although higher financing costs have tempered growth. District banks reported increased demand for loans, as borrowers searched for alternative financing tools. Looking forward, respondents remain concerned about future financial and economic developments, although their view has improved since the last survey period.

Business Sentiment

Most District respondents expect the national economy and their respective regional economies to slow during the next four quarters. About two-thirds of the respondents expect U.S. GDP growth to fall below its long-run average pace, easing pressure in labor markets and pushing the national unemployment rate above its current level. Most respondents expect inflation to remain stable, although a growing proportion anticipate an increase in inflation in coming quarters. About one-half of District respondents expect economic growth in their region to be at or below the national pace over the next year; the remaining half expect their region to outperform the nation, although to a lesser degree than in previous years. Most respondents
anticipate further slowing in business investment and consumer spending in their areas, and more than 95 percent of District respondents anticipate further deterioration in their region’s foreign trade balance. Although respondents remain concerned about future financial and economic developments, their outlook has improved since the last survey period.

**Retail Trade and Services**

Overall, District respondents reported modest growth in retail sales during this survey period. Consumers reportedly remained cautious, searching for bargains and delaying purchases of more expensive items. Sales growth reportedly was strongest at “big box” retailers, which used discounting, merchandise give-aways, and contests to attract customers. Department store sales were flat or declining relative to last year in many areas of the District, but respondents noted that the Thanksgiving weekend is no longer considered a reliable barometer of holiday sales outcomes. Respondents indicated that apart from toys, home furnishings such as linens and decorative items were the fastest sellers. In contrast, apparel sales, particularly of outerwear and sweaters, were flat.

Service industry respondents in most District states reported strong growth. Demand for telecommunications, data communications, and cable television services picked up in recent weeks, producing material shortages and delaying deliveries in some regions. However, prices for most telecommunications and cable products remained stable due to stiff competition among providers. Demand for shipping and freight services also increased in many District states, as producers and retailers prepared for the holiday season. Strong import growth during the recent survey period kept port traffic at high levels throughout the District and pushed inbound cargo
charges up significantly; two contacts reported that container rates for inbound cargo have risen by as much as 50 percent in the last year.

**Manufacturing**

Reports on District manufacturing activity were mixed. Respondents noted that industries dependent on export demand continued to slow in recent weeks, with employment contracting in some regions. In contrast, conditions among manufacturers of products targeted at domestic markets remained stable. However, a number of respondents noted that import competition has begun to push down final goods prices, depress order growth, and narrow profit margins in almost all sectors of manufacturing. District respondents reported few problems obtaining materials and limited capacity constraints; overcapacity, rather than constrained production, has become a concern of many District manufacturers. In a change from previous survey periods, District manufacturers did not report difficulty finding skilled employees.

**Agriculture and Resource-Related Industries**

District respondents reported that agricultural conditions remained weak during this survey period. Low prices and high inventories continued to squeeze profits for grain producers, while below average yields and poor quality harvests have left many growers of fruits, nuts, and vegetables in the red for the year, despite slight increases in prices. One contact noted that a number of apple orchards in the Pacific Northwest went unpicked this year because prices were too low to cover production costs. Feedlot conditions reportedly improved in recent weeks, although contacts noted that the slight improvement will not make up for weak conditions earlier in the year.
Real Estate and Construction

Real estate construction and sales activity remained at high levels in most District states, although the pace of growth reportedly slowed, particularly for commercial properties. Contacts throughout the District noted that rents for commercial properties have stabilized in most markets, damping new construction. Higher financing costs and the slowing economy reportedly have delayed construction of a number of new hotels and resorts in the District. Residential construction remained strong in many parts of the District, although respondents noted that speculative building has slowed substantially.

Financial Institutions

Twelfth District financial conditions were strong in recent weeks, although borrowers faced tighter terms. Commercial loan demand at banks remained high, and banking contacts reported ample capital to meet borrowers' needs. However, concerns about credit quality reportedly have restrained bank lending, resulting in higher terms and rates for commercial borrowers. Agricultural lenders noted that weak conditions for farmers and ranchers have begun to decrease the quality of their agricultural loan portfolios. On the consumer side, lower interest rates kept demand for mortgages and auto loans at high levels.