Summary of Commentary on

Current Economic Conditions

by Federal Reserve District

November 2000
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metals costs falling. Prices of finished goods were generally flat, as were manufacturers’ selling prices.

**Consumer Spending**

Retailers in most Districts indicated that general merchandise sales increased moderately, on balance, in November, with a lackluster performance for much of the month followed by unexpectedly strong rebound in sales over Thanksgiving weekend. Retailers expressed a general sense of optimism about the remainder of the holiday season. Strong late-month sales were noted in New York, Philadelphia, Richmond, Atlanta, Chicago, Minneapolis, Dallas, Kansas City and San Francisco; only Cleveland indicated that sales were sluggish throughout the month. The early strength in holiday-season sales was partly attributed to a combination of cold weather (New York, Chicago and Richmond) and stepped-up early promotions designed to draw traffic (Philadelphia, Atlanta, Chicago, Dallas and San Francisco). Among the categories of goods often mentioned in strong demand were electronics, toys, jewelry, shoes and winter outerwear.

In contrast, many districts reported declines in automobile sales; Cleveland and Kansas City indicated that sales would have been still weaker if not for manufacturer incentives. Vehicle inventories were described as excessive in Philadelphia, Cleveland, St. Louis, Chicago and Dallas, but were not deemed to be problematic in Kansas City.

**Manufacturing**

Manufacturing activity was said to be leveling off or slowing in most Districts. The sector was described as flat in Philadelphia, Richmond and Kansas City, and slowing in Boston, Cleveland, Atlanta, Chicago, St. Louis, and Dallas. However, continued expansion was reported in Minneapolis and San Francisco. Manufacturers in Philadelphia, Cleveland
and Chicago complained that they are being squeezed by rising input costs (mainly labor and energy) and flat to declining selling prices.

Notably, the major motor vehicle-producing Districts—Cleveland, Atlanta, Chicago, and St. Louis—reported that automobile and truck manufacturers were scaling back production. Atlanta, Dallas and Chicago reported softening in the production of construction materials, while Cleveland and Chicago noted weakness in heavy equipment. Falling prices and increased import competition (stemming from the strong dollar) were cited as adversely affecting some industries—particularly steel—in Philadelphia, Cleveland, Chicago, and San Francisco. On a more positive note, export manufacturers in Kansas City indicated that they were doing well despite the strong dollar. Industries reporting continued strength included semiconductors (Boston, San Francisco) office equipment (Chicago) and information systems (Boston).

**Real Estate and Construction**

Both residential and commercial real estate were still characterized as strong, though there have been some signs of slowing in both sectors since the last report. Single-family home sales were reported to be flat in New York, Philadelphia, St. Louis and Kansas City, and softening in Richmond, Atlanta and Chicago. Construction of new single-family homes has softened—activity has been level in Cleveland and St. Louis, but has declined in New York, Atlanta, Chicago, Minneapolis, Kansas City and Dallas, and San Francisco. However, New York’s decline was largely attributed to a shortage of available land, and San Francisco’s decline was offset by increased remodeling of existing homes.

The multi-family market has softened, and construction has slowed in Atlanta, Kansas City, and Dallas. There were also signs of cooling in New York’s extremely tight apartment market. The multi-family market continued to strengthen in Philadelphia and
Minneapolis. Multi-family construction showed no signs of slowing in New York or Philadelphia.

Demand for commercial real estate remained strong in most areas, with particularly tight office markets reported in Boston, Philadelphia, Richmond and Kansas City. Still, construction has slowed in some Districts—specifically, Richmond, Atlanta, Chicago, and St. Louis. On the other hand commercial construction has held steady at a high level in Cleveland, Kansas City and San Francisco, and it has picked up in Minneapolis. San Francisco noted that construction schedules have been delayed, in some cases, by labor and material shortages.

**Tourism and Services**

Tourism was generally described as strong in those Districts reporting on it. Activity was seen as robust in Boston, Richmond, and Atlanta, and mixed in Minneapolis. Rising hotel rates were reported in Boston, Minneapolis and San Francisco.

Conditions in various other service industries were mixed. In Richmond, service firms, in general, indicated sluggish growth in recent weeks. Transportation services (mainly truckers) in Cleveland and Chicago indicate that they have been squeezed by rising fuel and labor costs, and slowing demand. However, computer service firms in Boston, New York and San Francisco continued to register strong growth overall, despite scattered reports of business failures and layoffs in the industry.

**Financial Services**

Banks generally reported weaker demand for real estate loans but mixed results for consumer and commercial loans. New York, Richmond, St. Louis, Kansas City and Dallas indicated weakening demand for real estate loans, while Atlanta indicated little change. Consumer loan demand softened in New York and Dallas, but expanded in Philadelphia and
Atlanta. In the commercial segment, demand increased in New York, Atlanta and St. Louis, but decreased in Philadelphia and Cleveland and decelerated in Chicago.

Lenders tightened credit standards on commercial loans in most districts—specifically, New York, Philadelphia, Richmond, Chicago, St. Louis, Dallas and San Francisco. Credit quality or delinquency rates held steady in New York, Chicago and Dallas, but deteriorated in Atlanta and San Francisco.

Banks in Dallas said they have been pinched by shrinking interest rate spreads. For financial service firms more generally, some signs of slowing business were reported in Richmond and especially New York, where Wall Street firms have been affected by a decline in initial public offerings.

**Agriculture, Mining, Natural Resources**

Conditions in the farm sector were mixed but generally positive, with farmers benefiting from government subsidies. Farmland values were reported to be rising moderately in the Chicago district, with strong demand coming from non-agricultural interests, and values are holding steady in Kansas City. Farmers in Minneapolis and San Francisco have reportedly been pressured by rising energy, labor and distribution costs. However, conditions were reported to be favorable for ranchers in Minneapolis and San Francisco.

Crop harvest conditions were mostly favorable. Wet weather has helped small grain crops in Richmond, St. Louis and Dallas; however, the wheat crop is not doing well in Minneapolis and Kansas City due to dry weather in those Districts. Farmers in the Richmond and St. Louis districts reported storage problems arising from bottlenecks at grain elevators.

The energy extraction and production industries continued to benefit from elevated prices. High energy prices have sparked strong oil exploration and production in
Minneapolis, Dallas, Kansas City and San Francisco, with the petroleum industry in those districts running at or near full capacity. In contrast, metal mining activity in Minneapolis has been adversely affected by falling demand and rising costs.

**Labor Markets, Wages, Prices**

While labor markets continued to be tight across most of the nation, there were signs of softening in Boston, Cleveland, and Atlanta. Most districts indicated steady wage growth, but scattered signs of acceleration were reported in New York, Richmond, Kansas City and San Francisco. In addition, increases in non-wage benefit costs (particularly health insurance) were noted in Boston, New York, Atlanta, Chicago, Kansas City and San Francisco.

The most noticeable easing in labor markets was in the manufacturing sector, with Philadelphia, Richmond Chicago, St. Louis and Dallas reporting weakness in factory employment. Manufacturing wages continued to expand at a moderate rate in Boston, Cleveland, Richmond, Minneapolis and Dallas. Demand for construction workers has eased in Cleveland and Atlanta; however, in New York and San Francisco, construction workers—particularly plumbers, electricians, and other skilled tradespeople—remained in short supply.

Shortages of retail workers were reported in many districts, although these shortages were generally described as seasonal and, in some cases, are no more severe than last year. The shortage of computer services and information technology workers has abated slightly in Boston and Chicago and noticeably in St. Louis; however, strong excess demand for these workers persists in New York, Atlanta, Kansas City and San Francisco. The shortage of truckers has eased slightly in Cleveland and Chicago, as rising fuel costs and slowing demand has hurt independent truckers and dampened hiring.
Prices for consumer goods were reported to be flat in almost all districts, with only Richmond indicating some acceleration in retail prices. There were reports of rising hotel rates in Boston, Minneapolis and San Francisco. Also, low residential vacancy rates have boosted apartment rents in Philadelphia; on the other hand, rent concessions have started to be offered in Richmond, Atlanta and Dallas in response to an excess supply of multi-family units in some areas.

Manufacturers reported some increases in input costs—mainly energy and labor—but indicated that they were generally unable to raise selling prices. Materials prices were mixed. Widespread increases were reported in the cost of energy inputs, as well as rubber and plastics. However, prices paid for lumber and drywall declined.
The New England economy continues to grow, but contacts are expressing more widespread caution now than they did earlier. Several First District retailers say sales slowed in recent weeks; some manufacturers cite signs of emerging weakness. Labor markets remain very tight, although almost all contacts say they are slightly looser than earlier in the year. Prices are said to be largely stable.

Retail

Most retail contacts in the First District, including discount retailers, upscale retailers, and stores selling consumer electronics, office supplies, computers, and building materials, report robust sales growth from August through September, but flat or declining sales in the October through mid-November period. Indeed, a few contacts said that sales “fell off a cliff” recently and that they don’t know why. The tourist sector, by exception, continues to exhibit robust growth.

Employment patterns are more varied across sectors than in past reports. Discount retailers and the building materials sector are consolidating operations, with the former reporting layoffs. Employment is said to be holding steady at contacts in the consumer electronics and upscale retail sectors. Office supply stores and the tourism sector are continuing to add employees. Labor shortages appear to be abating except in the tourism sector. Wage rates continue to rise at a 3 to 6 percent pace.

Most retail contacts report that selling prices are not rising and vendor price increases are only sporadic. One exception is ongoing increases in hotel room rates. Except for the office supply sector, profit margins are reported to be either holding steady or rising. Rising profit margins are said to result from productivity-enhancing new technologies.

Looking forward, most retail contacts express uncertainty regarding the economic outlook. Most expect slower growth in the future, but are unsure as to the magnitude of the slowdown. In the near term, they are cautiously optimistic concerning holiday sales, but they expect sales growth to be slower than the exceptional holiday results of the last few years.

Manufacturing and Related Services

A slight majority of First District manufacturing contacts indicate that recent sales or orders are up relative to a year earlier. Business at the remaining firms is approximately even with year-ago levels. Regardless of overall trends to date, most respondents cite emerging weakness in selected product lines or
a more defensive stance on the part of customers or competitors.

Manufacturers selling to retail chains are at best cautiously optimistic about the holiday season; at worst, they cite evidence that their retail customers are wary of getting caught with excess inventories. Sellers of information systems and related products continue to experience growth but they indicate that their customers are becoming more hesitant in placing orders, particularly for pricey items. Contacts in the semiconductor industry say their orders continue to look strong; however, they are watching to see if the recent declines in high tech stock prices or sluggishness in some customer industries portend a downturn for them. A manufacturer of complex machinery reports a much improved order backlog, but is concerned about the ability of customers to continue to make timely payments. By contrast with these notes of caution, suppliers to the biopharmaceutical and transportation industries report that business remains strong and is accelerating in some cases.

Manufacturers in the paper and textile industries express concern about recent increases in energy costs. Other respondents indicate that energy forms a relatively small fraction of costs and they cite few instances of other nonlabor input costs going up to any noteworthy degree. While makers of semiconductors and information systems report higher selling prices, most contacts are holding their selling prices steady. Office equipment manufacturers say competition has intensified downward pressure on prices.

Reports concerning labor markets vary. Some respondents comment that salary pressures have eased or that labor availability has improved somewhat, and several are laying off employees. Three-fourths of contacts are giving average base pay raises of 2 to 5 percent. However, in some cases these contacts are absorbing much higher increases in health insurance costs or are paying out additional compensation to selected groups of employees. The remaining one-fourth are offering higher raises. For example, a couple of companies report that their growth is being impeded by more aggressive recruitment of their technical workers by competitor firms. They are responding with significant adjustments in salary structures as well as investments in automation tools or the establishment of remote sites.

Software and Information Technology Services

Software and IT respondents give mixed reports on the strength of demand. About one-third have continuing strong demand for their products or services; a second third report the beginnings of recovery
after a significant period of lower demand; the final third report flat to slightly slowing demand. Almost all these contacts expect to enjoy high demand next year. One contact with currently flat demand expects next year to be the best in company history.

Most contacts in the Boston area and New Hampshire report continuing tight labor markets, but one sees a slight easing of pressure due to the failure of some competitors. One Boston area company listed the labor market as the biggest obstacle to the company’s growth.

Temporary Employment

All temporary employment contacts in New England report strong growth. Among those contacted, overall revenues grew an average of 10 percent from a year ago for firms specializing in administrative support staff and 20 percent for IT. Profit margins are unchanged for most contacts. Demand is strong for administrative support and accounting as well as IT workers. Most contacts are managing to maintain their fill rate despite a tight labor market. Contacts supplying IT workers indicate that dot-com failures are contributing to a slight easing in the tightness of the labor market by supplying laid-off workers and by discouraging workers at client companies from leaving for start-ups.

Commercial Real Estate

Despite a few signs of softening, commercial real estate markets in New England are still strong. In the Boston area, office vacancy rates remain extremely low, especially downtown and in Cambridge. Demand for office space remains very strong. As a result, rental rates are “going through the roof.” The Boston suburbs are a little softer, but demand is strong here as well. High-tech companies reportedly still consider Boston a bargain compared to Silicon Valley. Contacts complain about “extreme shortages” of office space and apartments.

High rental rates and lack of space in Boston have caused some companies to move their operations to southern New Hampshire, southern Vermont, and Rhode Island, putting upward pressure on office rents in those areas. Rhode Island contacts report that office and industrial vacancy rates in downtown Providence have dropped slightly, although they increased in the suburbs. A Maine contact notes a marked increase in retail vacancies in downtown Portland. Although Hartford has its lowest vacancy rate in a decade, it is still one of the weakest markets in the country. Contacts across the region expect to see small increases in vacancy rates in the coming year.
The Second District’s economy has continued to expand at a moderate pace since the last report. Signs of increased wage and cost pressures have emerged, but there are no signs of an acceleration in consumer prices. Hiring activity remains brisk at both internet and Wall Street firms despite recent volatility in financial markets. Labor shortages have become increasingly acute across a broad range of industries, driving up wages in some cases, with the notable exception of retailing. There are also scattered signs of an acceleration in health benefit costs.

Retailers report that sales picked up sharply in late November, after running on or below plan for most of the month; retail prices are reported to be steady. Housing markets remain strong, aside from some moderation in Manhattan’s apartment market, while home construction is being restrained by a shortage of available land. Finally, bankers report little change in loan demand, tighter credit standards (especially on consumer loans) and a leveling off in delinquency rates, which had been falling.

**Consumer Spending**

Retail sales started off on a weak note in November, but finished the month with an unexpectedly strong Thanksgiving-week surge. A survey of New York State retailers showed brisk sales over the Thanksgiving weekend, with gains of 4-6 percent compared with the same period last year. For the month overall, most major retail chains report that sales were on plan, with same-store sales ranging from a slight decline, compared to a year ago, to a 5 percent increase. Some contacts anticipate that having four full weekends before Christmas, as well as an unusually late Hannukah, will shift more holiday purchases from November into December. On the other hand, a survey conducted by the Conference Board every November indicates that the average U.S. household is budgeting 1 percent less than last year for holiday spending—the first year-over-year decline since 1990.

Brisk spending was reported for apparel, particularly outerwear and shoes. This was largely
attributed to cold weather in the second half of the month. Sales of toys and home electronics were also described as strong. In general, selling prices are said to be little changed from a year ago.

Retailers report difficulty in finding adequate staff for the holiday season, but no more so than last year. Contacts indicate that they have raised wages only moderately from last year, but some are expanding recruitment incentive programs (primarily signing bonuses). Some retail contacts note that costs of health benefits have risen substantially.

Construction and Real Estate

The District's housing markets have remained strong since the last report, aside from some moderation in New York City's chronically tight market. Sales of existing single-family homes across New York State held steady at a high level in October, while the average selling price was little changed at a level roughly 7 percent higher than a year ago. Rochester-area realtors indicate that the number of purchase offers made—a leading indicator of sales—declined moderately in September and October; however, this may be a function of a dwindling inventory of homes on the market.

Manhattan's co-op and condo market appears to have cooled off, though prices are still running 10-20 percent higher than a year ago. While realtors note that demand remains fairly strong, the market is described as less frenetic than earlier this year—bidding wars are increasingly rare, sellers are more willing to negotiate, and buyers seem to feel less urgency to make a quick purchase. For the New York-New Jersey region overall, apartment construction continues to be strong. Multi-family permits were still up more than 30 percent from a year earlier in October, and 2000 is on track to register the strongest volume of multi-family construction since 1987.

Single-family home construction picked up in October, though the general trend has been down. Homebuilders in northern New Jersey say that demand remains strong, but that construction activity has slowed due to a dearth of buildable lots. There remains a fairly long backlog of orders for new
custom construction. One industry expert cites, as an example of increased confidence among builders, two speculative houses currently under construction with price tags of $2 million. Homebuilders report that the cost of construction materials has been stable, but that labor costs continue to escalate, due to an ever-increasing shortage of construction workers. Builders note a particularly severe shortage of licensed plumbers and electricians, as well as skilled masons and carpenters.

Other Business Activity

A leading New York City employment agency indicates that labor shortages have grown increasingly acute, and hiring activity remains strong, led by Wall Street. While securities firms are reportedly seeing a sharp decline in initial public offerings (IPOs) and a modest decline in profits in the current quarter, hiring remains robust and no major staff cuts are being announced. However, some firms are reported to be planning cutbacks in bonuses and general spending on services next year. Hiring activity is also reported to be brisk at “dot-coms”, despite volatility in that sector. Moreover, there is no discernible reluctance among job-seekers to join internet firms. Outside of these sectors, the New York City police department is reported to have increasing trouble attracting new recruits.

Regional manufacturers report generally favorable business conditions, though there are scattered reports of increased cost pressures. For example, an upstate New York tire manufacturer says that labor shortages and wage pressures are intensifying, mainly for hourly production workers. In response, the firm is increasing overall wages by 8-10 percent and entry-level wages by roughly 15 percent. Separately, the Buffalo area’s two largest HMOs recently announced that they will hike premiums by well over 10 percent on January 1.

Financial Developments

Loan demand was mixed since the last report, according to the latest survey of small to medium-sized Second District banks. Demand for both consumer loans and residential mortgages fell, but
increased demand was reported for commercial and industrial loans. Refinancing activity remained stable with over two-thirds of bankers reporting no change in activity.

An increased fraction of bankers reported tightening credit standards—especially on consumer loans: 16 percent of respondents say they tightened standards and none say they eased. Commercial and industrial loan standards were also tightened further. Bankers also reported raising loan rates on all categories of loans except residential mortgages. Deposit rates also rose since the last survey. Delinquency rates, which had been falling steadily for most of this year, leveled off in November on all categories of loans.
THIRD DISTRICT – PHILADELPHIA

Business activity in the Third District improved marginally in November. Manufacturers posted a slight gain in shipments although orders were only steady. Retailers reported that year-over-year gains in Thanksgiving weekend sales met or exceeded their expectations. However, auto sales slipped in November compared with the previous month and a year ago. Total bank lending has increased, largely due to growth in consumer lending.

The outlook among the business firms contacted for this report is positive but muted. Manufacturers expect a slight pickup in orders during the next six months. Retailers expect smaller gains in holiday sales this year than last year. The average forecast among store officials in the region is a 4 percent increase year-over-year in current dollars. Auto dealers anticipate a slight rebound in sales after the holiday period. Bankers forecast slow growth in lending in the new year.

MANUFACTURING

Area manufacturers reported generally steady activity in November. Shipments were edging up, but new orders were flat, as were order backlogs and inventories. Among the major goods-producing sectors in the District, only food processors and electrical equipment makers noted some increases in demand for their products. Several firms in the steel and metals industries cited the high value of the dollar and competition from imports as factors limiting their sales. On balance, the region's manufacturers have been reducing employment but keeping working hours steady.

Manufacturers expect a slight improvement in the next six months. They forecast a small increase in orders, which they will be able to meet without expanding employment or working hours. Capital spending plans at plants in the region still call for increased outlays overall, but the number of firms scheduling higher spending has declined from previous months.

Comments from manufacturers indicated that input costs continued on an upward trend in November, and reports of increases in electricity rates and natural gas prices
have become more common. Despite the rising cost of energy and other inputs, most firms contacted recently said they have not raised prices for the products they make.

RETAIL

Retail sales in the Third District generally met or exceeded merchants' expectations for the Thanksgiving weekend. Stores in the region indicated that current-dollar sales for the weekend averaged around 5 percent above the same period a year ago. Gains were posted in nearly all merchandise lines, and sales of jewelry, home entertainment equipment, and winter coats were described as especially strong. Discounting was extensive at many stores, but the price reductions that were made were planned as part of an effort to prompt early shopping. Based on the Thanksgiving results, some store officials have raised their estimates of total sales for the Christmas shopping period. On balance, however, retailers in the region believe their initial forecast of a year-over-year gain in sales of approximately 4 percent is likely to be realized.

Auto dealers reported a decline in sales in November compared with October as well as with November of last year. The drop appeared to be greater for domestic models than for imports. Some dealers said their inventories have become excessive, although most dealers indicated that their inventories were just slightly above plan. Dealers expect sales to be slow in December, but they anticipate a small upturn after the holidays.

FINANCE

Total loan volume outstanding at Third District banks has moved up in recent weeks. Most of the increase has been in credit card lending. Real estate lending and lending to businesses has just edged up. Bankers said growth in business lending has been slowing because of waning demand for business credit.

Bankers in the Third District expect overall loan growth to remain slow for the balance of this year and well into next year. Growth in business lending is expected to ease further. Several bankers noted that they are reviewing their commercial loan pricing policies, and the review could lead to their signing fewer new loans. Some banks also reported that their business borrowers were scaling back expansion plans and prospective borrowing needs. Real estate lending could ease, as some banks indicated they intend to
reduce their real estate exposure. Most bankers expect consumer lending to rise further in the weeks ahead because of seasonal factors, and some anticipate that this credit category will be the most resilient next year as long as employment and household incomes do not weaken.

REAL ESTATE AND CONSTRUCTION

Commercial real estate markets remain strong in most parts of the Third District. The vacancy rate for office buildings has been steady at around 8 percent in the Philadelphia central business district, and rental rates have edged up. In most other major office markets in the region, vacancy rates have been dropping. According to recent surveys by commercial real estate agents, suburban office vacancy rates average around 8 percent, down nearly 2 percentage points from midyear. Leasing activity has been steady in suburban office markets, and rents have been rising. Demand for retail space has been growing, but the number of companies establishing new distribution facilities in the region has declined. Contacts in commercial real estate markets expect nearly steady vacancy rates and rents next year, and they expect construction activity next year to just match or fall slightly below this year's rate.

Residential real estate agents generally indicated that sales of existing homes slowed seasonally in November, but they believe sales will return to an upward trend after the holidays. House price appreciation has moderated slightly, according to realtors, but in some areas demand exceeds supply, and homes have been selling for more than the asking price. Homebuilders reported a slowing rate of sales compared with a year ago. Nevertheless, new homes have been selling quickly and prices have been rising. Builders' backlogs should support a steady rate of new home construction through the middle of next year. Demand for apartments has been rising throughout the District. Rental rates have increased and vacancy rates have fallen to very low levels. Consultants in the multi-family real estate industry expect construction of new apartments in the region to continue at a steady rate, and they expect rental rates to rise further.
General Business Conditions and Labor Markets

Growth in economic activity in the Fourth District has slowed, even from the moderated rates of our last report. Many manufacturing industries are showing their vulnerability to the strong dollar abroad. Labor markets are much less tight, even among the highly skilled. Retail spending is soft.

Temporary employment agencies reported mixed demand for workers. Some firms need temporary help to finish contracted work by the end of the year. Others have reduced their demand. Firms are less likely now to change a temporary hire into a permanent employee. Retail store clerks, customer service representatives, and technical assistants are in high demand. Temporary agencies reported that it is easier to find workers since the last report.

Union contracts averaged wage increases of about 3½ percent. Unions have been able to negotiate larger pension increases, particularly with companies whose pension programs are well funded. The construction trades reported that shortages of skilled labor have disappeared, as firms have begun to lay off workers, such as pipe fitters and electricians, who have been previously kept on the payrolls as home building flattened out.

Construction

Residential construction remains about the same as in the last District report, with many contacts reporting the same sales figures as at the end of 1999. Builders expect conditions to stay about the same through the first quarter of 2001, even though building permits have declined a bit recently. Commercial building activity continues at a fairly
steady and high level. Materials prices have generally fallen; led by lumber and drywall price declines. Land prices, however, continue to rise throughout the District.

**Industrial Activity**

Steel companies reported having reduced output at least ten percent, and spot prices have fallen from their April high of $340 per ton of hot-rolled steel to $230. Even with the price drop, foreign steel remains cheaper than domestic because the value of the dollar is high. Demand for domestic steel has also declined because auto manufacturers have reduced production, as have agricultural and industrial equipment makers. Only some specialty steel prices have stayed steady. Several companies have laid off workers, and others have given their employees extended vacations. Most companies reported idling some furnaces. One large company has filed for bankruptcy, and some expect others may follow. The weakness in the steel industry has also spilled into reduced coal production.

Heavy truck manufacturers continue to expect large cuts in production. Fourth quarter truck orders stand at about forty percent of first quarter orders, even though this is a time of year when firms expect orders to be at their highest. The high value of the dollar is also hurting other industries in the District, including chemical and paper producers. Capital equipment manufacturers are suffering from a general decline in new orders.

**Trucking and Shipping**

Demand for trucking services during November declined for all firms that we contacted. This is due to the reduced shipments of domestic manufacturers, particularly steel. High petroleum prices have helped narrow profit margins. Although few firms reported layoffs, some have reduced the schedules of their hourly employees, and none of
our contacts is hiring new drivers. Our contacts expect soft conditions to last well into the first quarter of 2001.

**Consumer Spending**

Retail contacts reported fairly disappointing sales over the last six weeks and soft sales over Thanksgiving weekend. Many retailers expect that their year-over-year sales will be lower than last year and that holiday sales will be poor. Most contacts believe the economy is slowing. There was some hope that sales might improve for jewelry, electronics, and computers during the holiday season; however, sales of nondurables such as apparel, are not expected to pick up by the end of the year.

Domestic auto manufacturers that reduced the price of new autos saw steady sales for the last six weeks, while those who did not have suffered declines of up to fifteen percent. Despite this, overall auto sales are only slightly lower than last year's record levels. However, inventories are twenty-five percent higher than desired. Sales of used vehicles were steady during October and November. In spite of high gasoline prices, consumers are still buying light trucks and larger autos.

**Banking and Finance**

The value of commercial loans holds steady although concern about their risk has increased. All of our contacts agreed that demand for consumer loans is weaker, with the exception of credit card loans. In some areas, mortgages are considerably down. Our contacts continued to attribute the sharp decline in auto loans to increased use of car company financing. Banks reported that their commercial loan portfolios, being well diversified, are not especially risky, but that specific components, such as coal and steel, are now a concern.
FIFTH DISTRICT—RICHMOND

Overview: The Fifth District economy expanded at a more moderate pace in late October and November, though the level of economic activity remained high. Retail sales growth tapered off during much of November, but regained momentum after Thanksgiving. Services firms reported somewhat slower growth in demand and only modest employment growth. Manufacturing activity remained at a relatively strong level even though output was flat and raw materials prices moved higher. The real estate and financial sectors slowed in part because of recent stock market declines and uncertainty over the outcome of the presidential election. District labor markets remained tight, and wage growth was modestly higher. Price increases remained moderate in the services sector and were little changed in manufacturing, despite a pick-up in raw materials prices in recent months.

Retail: District retailers reported that, compared to a year ago, sales growth was weak during the first three weeks of November, but was moderately stronger after Thanksgiving. Retailers said that colder weather in some areas boosted sales of their winter lines, helping push sales above last year’s post-Thanksgiving levels. A manager at a large department store in Columbia, Md., for example, reported that his post-Thanksgiving sales were brisk, even in light of the recent opening of a new shopping mall nearby. Looking forward, most retailers we spoke with expected good holiday sales gains, and they told us that they had stocked higher inventory levels in anticipation. Nevertheless, many retailers look for the growth rate of sales to be more modest this holiday season than in the last two years. On the employment front, some stores were having trouble finding holiday help. Retail wages continued to grow at a fairly brisk pace, and the growth of retail prices accelerated.

Services: Services firms in the District reported that their revenues grew sluggishly in recent weeks. A hotel manager in southeastern North Carolina, for example, said that demand for hotel rooms declined in recent weeks, which he attributed to a general slowing of growth in the economy. In Maryland, a financial services firm said that customers were becoming “more cautious” as their concerns with a slowing economy mounted. Employment growth in the services sector eased while wages rose at a moderate pace.

Manufacturing: Fifth District manufacturing activity leveled off since our last report. Shipments and new orders were flat in recent weeks; production was particularly soft in the chemicals and instruments industries. An instrument manufacturer in Baltimore, Md., noted that declining revenues and rising costs of raw materials had squeezed profit margins.
Several chemical and rubber products manufacturers also reported that raw materials prices moved substantially higher over the last two months, mainly because of higher oil prices. However, according to many contacts, raw material price increases moderated in November. In labor markets, both manufacturing employment and the average workweek slipped, while wages advanced at a more modest pace.

**Real Estate:** Residential realtors reported slower home sales in late October and November, as a greater proportion of their clients adopted a “wait-and-see” attitude in the face of stock market fluctuations and uncertainty over the outcome of the presidential election. A realtor in Richmond, Va., characterized the local housing market as steady but added, “houses are sitting [on the market] longer.” In Baltimore, Md., a realtor reported that the residential market remained healthy, but noted that growth had slowed since late summer. Realtors in Rocky Mount, N.C., and Greensboro, N.C., reported slower sales growth and larger inventories of homes. Home prices were generally steady across the District but several realtors expressed concern that prices could soon decline in markets where inventories are building.

On balance, commercial realtors reported an easing in leasing and construction activity in recent weeks. Realtors in the District of Columbia said that demand for office space had declined slightly, in part because of diminished demand from firms in the telecommunications industry. A realtor in Columbia, S.C., said that the local office and industrial markets had slowed but that the area’s retail market remained strong. Contacts in Charlotte, N.C., indicated that retail and office leasing activity was expanding more slowly and that there was less speculative construction underway. On a stronger note, contacts in Richmond, Va., indicated that growth in retail leasing has been steady with a slight upward pressure on rental rates, and a Raleigh, N.C., realtor described markets in that area as “very healthy.” Despite some signs of softening demand, the supply of Class A office space remained tight in most metropolitan areas of the District.

**Finance:** District loan officers reported that lending activity grew at a slower pace in recent weeks. Concerns about a slowing economy and diminished corporate profits contributed to more cautious lending by commercial loan officers. A commercial lender in Charlotte, N.C., reported that even though demand for business loans has remained fairly strong, he had become “more selective” in extending credit in recent weeks. A banker in Richmond, Va., expressed similar sentiments noting that she was now a little more
“conservative” in lending, because of declining profit margins in cyclical industries such as building products. Growth in residential mortgage lending eased as housing markets cooled. A lender in Greenville, S.C., said that even though mortgage interest rates had declined in recent weeks, borrowers' apprehension about future economic conditions slowed the growth in demand for mortgage loans.

Tourism: Tourism continued to strengthen in late October and November with most contacts reporting strong Thanksgiving patronage. A manager at a ski resort in West Virginia said that Thanksgiving holiday bookings were above a year ago because ten inches of snow arrived just in time to kick off the resort's ski season. A hotelier on the Outer Banks of North Carolina also reported strong Thanksgiving holiday bookings, in part because a growing number of coastal discount retailers are attracting holiday season shoppers. A contact at a mountain resort in Virginia told us that brilliant fall foliage and the increasing popularity of weekend golf vacations had contributed to stronger-than-expected bookings throughout most of the fall season.

Temporary Employment: Temporary employment agencies reported that the demand for workers was mixed in the weeks since our last report. Contacts at employment agencies in Raleigh and Gastonia, N.C., and in Charleston, W.V., noted somewhat lower demand from clients. In contrast, a contact in Rockville, Md., said demand for temporary workers in that area remained very strong, stating that in the last two weeks his agency had been “hammered” with requests from marketing and public relations firms. Light industrial and administrative workers continued to be highly sought throughout the District. Contacts indicated that wages were generally steady since our last report.

Agriculture: Light-to-moderate rainfall accompanied by cooler-than-normal temperatures in recent weeks slowed harvesting activity in some areas of the District, but the wet weather helped small grain crops. Harvesting activity was behind schedule in Maryland, though the pace picked up somewhat in recent days. Bottlenecks at grain elevators continued to be a problem in Virginia, causing farmers to alternate between soybean and corn harvesting depending on the availability of storage space. On the brighter side, rainfall helped winter wheat, barley, and oat crops germinate before the onset of winter.
SIXTH DISTRICT – ATLANTA

Summary: The District economy continued to expand at a moderate rate during November, largely matching the slower pace noted in the last report. The outlook is for a continuation of slower growth through the remainder of the year. Retailers' reports were generally subdued, with warm weather stalling apparel sales in many parts of the region, while larger automobiles and sport-utility vehicles were selling more slowly than a year ago. Growth in Thanksgiving retail sales appeared to be strong, particularly at discount stores. New residential and nonresidential construction and sales continued to soften in the District. Factory activity also slowed, but some new projects were announced in the transportation equipment sector. Reports from the tourism and hospitality industry were more positive than in our last report. Loan activity remained strong but was expected to slow in the near term. Labor market pressures eased slightly, while reports of price increases remained limited.

Consumer Spending: Unusually warm weather through the middle of November dampened apparel sales in many parts of the District, and larger automobiles and sport-utility vehicles were also selling more slowly than a year ago. Some retailers reported that sales results during early November had fallen below expectations, and there were more instances of higher than desired inventory levels than in the last report. Stores reported mostly brisk sales during the Thanksgiving weekend, with the strongest reports coming from discount retailers. The use of discounting and other sales promotions appeared to be more widespread than last year. Many District retailers said that they expect fourth-quarter sales results to moderately exceed last year’s levels.

Construction: Single-family home construction and sales remained sluggish. New home sales declined notably during October and early November compared with a year ago.
Homebuilders continued to report slow customer traffic and greater use of price concessions. However, inventories were mostly described as balanced. Most realtors and builders contacted anticipate further slowing in the housing sector through the first quarter of next year.

Nonresidential construction also slowed, continuing a trend from the third quarter. Office vacancy rates rose moderately in several key markets, although net absorption continued to be strong in most areas. Industrial vacancy rates fell in some markets. Multifamily construction continued to slow, with several locations experiencing higher vacancy rates. Reports continued to indicate little near-term risk of oversaturation in the commercial real estate market. Overall District construction employment payrolls in October were estimated to be around 1.5 percent higher than a year ago, which was the slowest annual growth since 1992.

**Manufacturing:** Activity slowed in many manufacturing industries, but contacts reported new orders or planned expansions in some areas. Nissan recently chose a Mississippi location for a new plant to produce sport-utility vehicles and minivans. The facility will reportedly cost nearly $1 billion and eventually employ around 4,000 workers. Also, some District shipyards gained new contracts for ships, and work at drilling rig fabricators continued to expand. In response to slower demand, cutbacks by producers of heavy-duty truck and trailers continued, and the slowing housing market is reported to have resulted in closings and layoffs at several producers of housing materials. Production has also continued to slow at many of the District’s paper mills.

**Tourism and Business Travel:** Most contacts were cautiously optimistic about the winter tourist season in Florida and along the Mississippi Gulf Coast. Major Miami convention and tourist hotels reported strong forward bookings. Rising passenger traffic through Miami International Airport over the next six months is anticipated. With recreational travel to the
Middle East having been largely curtailed, many travelers are expected to opt for travel to Florida and the Mississippi Gulf instead. There was an unexpected surge in demand for hotel rooms in Tallahassee during late November.

**Financial:** Bankers indicated that strong consumer and commercial loan demand continued to fuel overall growth in bank lending in the District, although demand for automobile loans slowed slightly and mortgage demand was mixed. Reports suggested that the number of nonperforming loans and charge-offs has increased but remains at relatively low levels. Banking contacts expected overall loan growth to slow in the near term.

**Wages and Prices:** Overall labor market conditions loosened slightly in the District. Many firms observed that unskilled and semi-skilled workers were easier to find than earlier in the year. However, skilled and professional staff remained scarce. Local technology companies reported making increased use of foreign temporary workers to meet demand. Reports also suggested that hospitals are having great difficulty attracting and retaining key personnel.

Reports of price increases were more frequent than in our last report, but limited to certain sectors. Some contacts mentioned increasing prices for industrial commodities such as copper and aluminum. Higher fuel prices have caused problems for local truck manufacturers and transportation firms. Health care costs continued to increase throughout the District, while lumber and paper prices were down notably. A few reports noted accelerating wage growth.

**Agriculture:** Cotton production forecasts for 2000 have been revised lower for Georgia and increased for Mississippi, Louisiana, and Tennessee. In Florida, the damage from the citrus canker remained limited, and the initial forecast for this season's orange crop is 3 percent higher than last season.
Summary. The Seventh District economy continued to expand in recent weeks, although growth appeared to be slow. Retail sales were higher than most merchants expected as the holiday shopping season began, but much of the strength seemed attributable to higher-than-normal promotional activity. Sales of both new and existing homes remained relatively strong, yet softer than a year ago, and growth in nonresidential building activity slowed somewhat recently. Manufacturing activity remained slower in recent weeks and the pricing environment was again very soft. Labor markets were very tight, though there were some reports of lower demand for manufacturing workers. District farmland values rose less than 1 percent during the third quarter. Despite low commodity prices, farm debt continued to be serviced in a timely manner as government payments substantially augmented farm-derived income.

Consumer spending. Retailers generally indicated that sales over the Thanksgiving weekend met or exceeded their moderate expectations—buoying their confidence for the holiday shopping season—but the good results were not shared by all. Most merchants said that traffic and sales were very strong on Friday, but were tempered somewhat on Saturday and Sunday by rainy weather. Prior to the Thanksgiving holiday, retail sales were generally reported to be good, as promotional activity picked up earlier than in previous years. Seasonal apparel (such as coats, gloves, scarves, etc.) was moving rapidly as colder-than-usual weather took hold in November, and some traditional gift items (diamonds and fine jewelry) were also selling well. In contrast, one national chain reported that sales in the Midwest met their very low growth expectations, and a survey of small and medium-sized retailers in Michigan indicated that sales volume actually decreased from last year. Spending remained strong at casual dining establishments, according to one contact. Light vehicle sales in the District decreased in recent weeks, according to one large dealer group, although this contact expected to finish the year with higher sales than in 1999. In addition, auto-related advertising was said to be declining in at least one metro area. Contacts felt that both consumer and business confidence levels were down from earlier in the year, which moderated their expectations for 2001.

Construction/real estate. Overall construction activity softened slightly in October and November, as nonresidential building appeared to take a breather. Contacts in many areas pointed out that 2000 will be a record year for nonresidential building activity, with many
describing the environment in recent weeks as one of “steady-to-slowing growth.” Infrastructure building was again robust and one contact expected this strength to continue given state governments’ overflowing coffers. There were, however, some signs that other nonresidential segments may have slowed, or may soon be slowing. A large retailer noted that construction bidding was becoming more competitive, and another contact, citing adequate office space currently on the market, suggested that this segment would likely be slower in 2001. Based on conversations with builders and realtors, it appeared that the housing market softened further in October and November, yet remained relatively strong. One builder noted that while new home sales so far this year were off from exceptionally strong years in 1998 and 1999, they were still on par with 1996 and 1997, which the industry considered to be good years. In addition, residential building permits in District states, year-to-date through October, decreased only slightly from last year. Sales of existing homes were also softer in recent weeks. One realtor in a large metro area noted that despite slower unit sales, increases in dollar volume had been substantial, suggesting that sales of lower-priced homes were softer than higher-priced homes.

**Manufacturing.** Manufacturing activity generally was slower in October and the first few weeks of November. Light vehicle sales nationwide remained softer than earlier in the year and inventories were high for some models. As a result, contacts suggested that producers were scaling back first-quarter 2001 light vehicle assembly schedules. New orders for heavy trucks remained weak, partly as a result of high used truck inventories, and some industry analysts were predicting it would be at least another year before the industry rebounds. Heavy equipment industries (construction, agriculture, etc.) were also soft, with little change in new orders, production, or inventories over the last six months. While sales of steel products remained robust, much of this demand was being met by imports. Imports were exerting significant downward pressure on prices, straining producers’ margins, and forcing at least one domestic producer to file for bankruptcy. Prices for gypsum wallboard in October were down sharply from a year ago as shipments and capacity utilization fell. New orders for office equipment remained strong and backlogs continued to rise, as some manufacturers were surprised by the surge in demand earlier in the year.

**Banking/finance.** Overall lending activity moderated in recent weeks, due mainly to slowing growth in business loans. A contact at one large bank noted that after a “mammoth” record volume year so far in 2000, business loan growth slowed in recent weeks. According to
contact reports, lending standards were tightened further, even though there was reportedly no change in overall business loan quality. One contact noted that prudent lending standards in recent years continued to pay off. New residential mortgage originations remained flat for most lenders, while refinancing activity picked up in some areas. One large metro area bank reported that refinancing activity accounted for roughly 25 percent of applications in recent weeks, up from 10 percent earlier in the year. There was no change reported in consumer loan quality and charge-off rates remained relatively stable.

**Labor markets.** Demand for workers generally continued to outpace supply, although there were a few reports of increasing worker availability in some areas and occupations. Contacts with temporary staffing services suggested that demand for manufacturing workers dropped off notably in the last 6-8 weeks, and there were some new reports of manufacturing layoffs in some areas. A few contacts at tech consulting firms reported that more workers were “sitting on the bench” as many projects had been cancelled. Also, higher fuel prices drove many independent truck drivers out of business, making it easier for larger haulers to find qualified drivers. For the most part, however, contacts continued to find it difficult to hire and retain qualified workers. Again this holiday shopping season, retailers were challenged to adequately staff their stores and there appeared to be a more concerted effort to lure retirees back into the workplace. Reports of increasing non-wage labor costs, that previously had been limited to health insurance costs, have expanded to include liability and casualty insurance costs. There were few new reports of intensifying pressure on wages or salaries.

**Agriculture.** District farmland values rose less than 1 percent, on average, in the third quarter, about the same as reported in the second quarter, but half the rate of gain reported in the previous two quarters, according to a survey of the District’s agricultural bankers. Strong demand by residential, commercial, and recreational use buyers continued to exert substantial upward pressure on farmland prices in some areas. Bankers expressed concern about low levels of farm-derived income but observed that government payments were making it possible for most farmers to continue to service debt in a timely manner. At the same time, many bankers noted concern about the longer-term viability of this environment.
Summary

District economic activity, though still operating at a high level, has slowed somewhat over the past few weeks. Retail sales have been weak, with nearly all contacts reporting sales growth below expectations. Cautious optimism reigns among retailers this holiday season. Demand and employment growth have moderated at District manufacturers and other businesses. Still, many firms continue to struggle to fill positions, especially seasonal positions. District home sales and new construction are both down from their year-earlier levels, although downward trends have been leveling off. Banks report mixed changes in loan demand: an increase for commercial and industrial loans, a decrease for real estate loans. Favorable weather has enabled farmers to complete the harvest early. Corn and soybean yields are up in most District states.

Consumer Spending

Retailers report that sales in October and November, when compared with the same period last year, have been weak—down about 4 percent on average. In a few cases, sales are down by more than 10 percent. Nearly all contacts note that sales growth has not met expectations. Unseasonably warm weather in October led to lackluster sales of several items, particularly winter clothing, shoes and outerwear. More recently, though, sales have rebounded somewhat, with items such as fine jewelry, toys and video-game consoles moving quickly. Sales of other electronics and durable goods—such as washers and dryers—are reportedly robust as well. Most contacts note that inventories for the upcoming holiday season are at desired levels. Retailers are cautiously optimistic about sales during this holiday season, with many expecting growth of about 5 percent over a year earlier. Those retailers that conduct business over the Internet expect online sales to post very strong growth over last year.

Car dealers report that sales, especially of used cars, have been weak over the past two months—down 5 to 10 percent on average over a year earlier. Higher interest rates and a recent dip in consumer confidence have been cited as reasons. Half of the contacts note that current inventories are at desired levels; the other half have inventories that are slightly overstocked.
Although expectations about sales for the rest of the year are mixed, more than half of the dealers are optimistic that sales will pick up in December.

Manufacturing and Other Business Activity

Contacts report that demand and employment growth have moderated over the past two months. A number of plant closings have eliminated several hundred jobs in the District. Most notably, a paper producer in southern Arkansas plans to lay off more than 2,500 workers early next year to streamline operations after acquiring another firm. The District's textile industry continues to shrink, as an Arkansas firm announced layoffs of nearly 800 workers. Several District hospitals are starting to report cutbacks on staff because of declining government reimbursements that have strapped them financially. Contacts note that the flourishing high-tech sector has waned as of late. For example, in St. Louis and Louisville, a large number of nascent Internet companies have laid off workers as growth prospects have dimmed. The automotive industry, which has been experiencing slower demand, has idled workers at a few District plants for at least one week to pare inventories. A decision to upgrade equipment at General Electric Appliance Park in Kentucky, though, will save 800 jobs that were going to be cut to streamline the production of dishwashers. GE still plans to eliminate 400 jobs at the park.

Tight labor markets have made the search for holiday employees difficult. Firms continue to use job fairs and offer retention bonuses and large employee discounts to attract and retain workers. Some contacts report offering wages of $9 per hour for clerk and counter help. Stores increasingly report attracting new workers, such as retirees, into the labor force to fill vacancies.

Real Estate and Construction

In November, home sales in most District areas have continued leveling off. Year-to-date sales are below last year's, when they were generally at record highs. Real estate agents report optimism about the rest of the year, as median house prices are still near or above year-earlier levels. Reports from the Little Rock area indicate that new homes have been selling better than existing homes.

As with home sales, residential construction has continued to level off. New building
permits are down from a year earlier. Nonresidential construction has also slowed, with some reports of more general contractors bidding on each job now than earlier this year. A positive side effect of the general slowing in all construction is that material shortages are less frequent. Backlogs of orders have also kept construction companies busy, with large projects continuing in many areas.

**Banking and Finance**

Respondents to a recent Senior Loan Officers survey report that credit standards for almost all loan categories remain unchanged. Some tightening of standards for commercial real estate loans has occurred, though. Terms on some commercial and industrial (C&I) loans have been tightened moderately because of what banks view as a reduced tolerance for risk and signs of worsening industry-specifics. Demand for all loan products is more varied. Some respondents indicate stronger demand for C&I loans, while others note weaker demand for commercial and residential real estate loans.

**Agriculture and Natural Resources**

Many areas across the District have experienced favorable weather conditions since mid-October, which enabled farmers to complete the harvest early. Rainfall in mid-November across much of the District helped return topsoil moisture to adequate levels and should prove beneficial to both seeded and newly established winter wheat. The winter wheat crop reportedly is in good-to-excellent condition in Illinois, Indiana, Kentucky and Arkansas, average condition in Missouri, and poor-to-fair condition in Mississippi.

Surveys and reports indicate that this year's corn yields in all District states except Arkansas and Mississippi are well above last year's yields. Soybean yields are also rising modestly in these states. In Arkansas and Mississippi, on the other hand, both corn and soybean yields are below their year-earlier rates. A contact in Kentucky reports that tobacco yields are above average and are exceeding producers' expectations. Reports from contacts in several District states note that because some grain terminals are filled to capacity, they have had to temporarily store excess grain on the ground.
NINTH DISTRICT--MINNEAPOLIS

Economic growth in the Ninth District remains steady. The energy and commercial real estate sectors continue to expand at a solid pace, although the growth of tourism and manufacturing as well as consumer spending remains slow. The financial condition of most district farmers is improving. Meanwhile, housing construction levels and iron mining production are decreasing. Labor markets are still tight, while wages are increasing at a moderate pace. Overall price increases are moderate, but significant increases are noted for energy, transportation and hotel room rates. Lumber prices are down significantly.

Construction and Real Estate
The pace of commercial construction activity has picked up since the last report. Building contracts awarded in the Dakotas and Minnesota increased 4 percent for the three-month period ending in October compared with the same period last year. Commercial construction is strong in the La Crosse, Wis., area, according to a bank director.

However, housing units authorized were down slightly in the district for the three-month period ending in October compared with a year earlier. Real estate loan demand is flat to down in several parts of North Dakota, said a bank director. In contrast, due to low rental property vacancy rates in Sioux Falls, S.D., 615 multifamily units were authorized during the first nine months of 2000, up from 218 units in 1999. The average sales price of a home in the Duluth, Minn., area, was up about 8 percent for the first nine months of 2000 compared with last year.

Consumer Spending and Tourism
Retailers report modest growth this fall, but are optimistic for holiday sales. A major Minneapolis-based department store retailer noted that October same-store sales were up 3.5 percent compared with a year ago. A mall in Bismark, N.D., reported sales up 3 percent to 5 percent in October compared with a year earlier. A Minneapolis area mall reports sales flat for October compared with a year ago, but improvements were noted as the holiday season began. Sales on the Friday following Thanksgiving started out strong at a Minneapolis-based electronic retailer, with 500 people waiting outside for one store to open, according to a local news article. Thanksgiving weekend sales at a Duluth mall were about the same as a year ago, but sales met expectations for most store managers.

Fall tourism activity was down in some parts of the district, but many businesses are optimistic for the winter season. Fall travel in South Dakota and crossings at the
International Bridge at Sault Ste. Marie, Mich., in October were both down 10 percent compared with a year earlier. In contrast, fall travel and lodgings were solid in northern Wisconsin, according to a Chamber of Commerce official. Recent snowfall has resulted in earlier than normal openings for ski hills in South Dakota. A ski resort in northern Minnesota and another in Montana have opened on schedule and report bookings even up 7 percent, respectively, compared with a year ago.

Manufacturing
Overall manufacturing activity in the district increased, but signs of a slowdown in Minnesota and South Dakota are evident. Based on the preliminary results from the Minneapolis Fed’s Annual Business Conditions Survey (conducted in November), half of the manufacturers foresee that 2001 sales will increase, while only 16 percent expect 2001 sales to be less than 2000. In fact, an aluminum enclosure manufacturer plans to expand production at two Minnesota facilities, a screen door producer expanded a western Wisconsin factory, and a northern Michigan medical device company is planning an expansion of its operations. However, an October purchasing manager survey by Creighton University indicated slower manufacturing activity in Minnesota and in South Dakota. As evidence, an auto parts maker announced the closing of a Minnesota engine pistons factory, and a storm door producer announced cutting production at a South Dakota plant. In addition, after 51 years of operations, a Montana lumber mill permanently closed, and two Minnesota oriented strand board paneling mills expect to stay shut down for one month.

Mining and Energy
The palladium and petroleum industries continue to operate at near capacity, while iron ore production is falling. Palladium production is at full capacity, according to a Montana mining official. District oil exploration and production continue at a strong pace in response to high petroleum prices. Meanwhile, a large northern Minnesota iron ore mine is planning to cut production by 12 percent, and a northern Michigan mine temporarily shut down due to falling demand. In addition, a Montana copper mine remains closed due to high energy costs.

Agriculture
“Improved cattle prices, excellent production and high government payments have helped our producers,” reported a South Dakota agricultural lender. Farmers’ financial condition continues to improve, based on preliminary results of the Ninth District’s fourth quarter
(November 2000) survey of agricultural credit conditions. Loan repayments have improved, as 84 percent of respondents report average or above-average levels of loan repayments compared with 72 percent a quarter ago. In addition, farm income improved, as 65 percent of respondents reported average or above-average farm income compared with 46 percent last quarter. However, overall costs are up, including higher expenses for labor and fuels. Meanwhile district wheat producers are encountering production problems due to adverse weather conditions.

**Employment, Wages and Prices**

Employers still report difficulty in filling positions; however, some indicators suggest easing in the labor market. Hospitals are short on physician specialists in the Upper Peninsula of Michigan, causing longer waiting times for patients. A ski resort in Montana reports low numbers of job applicants, requiring an overseas search for staff. However, despite a low unemployment rate, retail stores in Sioux Falls are receiving sufficient numbers of applicants to fill positions. In Minneapolis-St. Paul, 34 percent of companies surveyed by a major staffing company plan to hire more workers during the first three months of 2001; down from 44 percent a year ago.

Wages are rising at a moderate pace. Hotel workers at two St. Paul hotels will receive 4 percent to 6 percent wage increases during the first year of a new contract. District manufacturing wages increased 2.9 percent for the three-month period ending in September, the lowest rate of increase in 16 months. In an informal survey of manufacturers in the Dakotas, Minnesota and Wisconsin, about 35 percent of respondents reported raising wages in October, down from 70 percent a year earlier.

Price increases were noted in energy, transportation and hotel room rates, with reductions in lumber. Heating costs in Montana are expected to increase as much as 40 percent compared with last year, and many retailers are now assessed a freight surcharge of 4 percent to 8 percent of published rates to meet higher fuel costs, reported a bank director. The average daily room rate for district hotels and motels increased 6.4 percent in September compared with a year earlier. In contrast, framing lumber prices dropped almost 25 percent from the beginning of the year. Only 27 percent of respondents reported increased product prices in an informal survey of manufacturers, down from 55 percent six months ago.
Overview. The Tenth District economy remained solid in late October and November, but with some signs of slowing. Retail sales continued to rise modestly heading into the holidays, and manufacturing and commercial construction activity held steady. Energy activity continued to benefit from high oil and natural gas prices. The main signs of slowing were declines in motor vehicle sales and residential construction activity. In the farm economy, dry autumn weather hurt the winter wheat crop and limited forage for cattle. District labor markets remained tight, with wage pressures showing some signs of intensifying. Prices for some manufacturing materials rose further. In contrast, retail prices and prices for most building materials were generally stable.

Retail Sales. Retailers reported slight increases in activity in late October and November, continuing the trend of the last several months. Nearly all stores also reported that sales were higher than a year ago. Women’s clothing sold particularly well, as did men’s casual wear. Sales of cosmetics and appliances were generally weak. Store inventories edged up but are expected to level off in coming months. Sales during the Thanksgiving weekend either met or moderately exceeded expectations in most locations, and managers were cautiously optimistic about the rest of the holiday shopping season. There was some concern, however, about how weaker technology stock prices might affect holiday buying. Motor vehicle sales have slowed considerably and most dealers remain pessimistic about sales in coming months. Some dealers also reported that extensive manufacturer incentives have prevented sales from falling further. Virtually no vehicle inventory problems were reported.

Manufacturing. District factory activity was generally stable in late October and November, with most firms continuing to report high levels of capacity utilization. Some producers of petroleum-based products reported slightly lower levels of capacity utilization than in the previous survey. Several exporters, however, reported that production and sales have held up reasonably well despite
the strong dollar. Manufacturing materials remained generally available, with lead times largely unchanged. Managers do not anticipate material availability problems in coming months. Most firms trimmed inventories and expect to continue doing so through the first of the year.

**Real Estate and Construction.** Residential construction activity turned back downward in late October and November, while commercial building held steady. Housing starts fell in nearly all locations, following a modest rebound in September. Some locations also reported an excess supply of multifamily units. Builders expect residential building activity to remain about the same throughout the winter, after adjusting for normal seasonal variation. Sales of new and existing homes were mixed, with year-over-year gains in some cities offsetting declines in others. Mortgage demand has been weak and is expected to remain flat. Commercial construction activity was largely unchanged from a few months ago. Respondents in a couple of cities warned of possible overbuilding in the office market, but absorption in most cities remained strong enough to keep vacancy rates at low levels. Building materials were generally available, although shortages of gypsum wallboard persisted in some areas of the district.

**Banking.** Bankers reported that loans and deposits were both flat over the past month, leaving loan-deposit ratios unchanged. Demand eased for residential construction loans but edged up or remained unchanged for other loan categories. On the deposit side, an increase in small time deposits was offset by small declines in demand deposits, NOW accounts, money market deposit accounts, and large CDs. All respondent banks left their prime lending rates unchanged, and almost all banks held their consumer lending rates steady. Contacts also do not expect to adjust these lending rates in the near term. Lending standards were unchanged from the previous month.

**Energy.** Energy activity continued to benefit from high oil and natural gas prices. The count of active oil and gas rigs in the district edged down but remained near a seven-year high. Natural gas prices have risen dramatically, as the winter heating season began with historically low inventories.
Oil prices reached a ten-year high in November. Several contacts in the industry expect high prices to continue for some time due to strong worldwide demand and inadequate exploration and development.

Agriculture. Development of the district's winter wheat crop was hurt by dry autumn weather, which left the crop unusually vulnerable to cold winter temperatures. The dry weather also hurt pastures, limiting forage supplies and discouraging cattle ranchers from expanding their herds. District bankers reported improved profits in the cattle industry, and big government subsidies to crop producers have stabilized farm loan portfolios and farmland values. Bankers expect relatively few repayment problems to surface in farm loan portfolios during credit reviews this winter. Most recent sales of farmland have been to farmers expanding their businesses and to nonfarm investors interested in scenic areas.

Wages and Prices. Labor markets in the Tenth District remained tight in late October and November. As before, the greatest labor shortages were for information technology, entry-level retail, and manufacturing production workers. The proportion of business contacts reporting increased wage pressures continued to edge up from earlier in the year. Benefit costs have also increased and are expected to continue rising in 2001. Retail prices remained steady in October and November and are expected to stay unchanged through the end of the year. Upward price pressures continued for some manufacturing materials, including rubber and other petroleum-based products. These increases are expected to persist in coming months. Some builders reported further declines in lumber prices, but prices for most construction materials were unchanged and are expected to remain steady.
Overall Eleventh District economic activity continued to cool in October and November but remained at moderately high levels. Some contacts believe stock market volatility and increased uncertainty have affected the business environment, while heavy rainfall impeded construction progress and damaged unharvested crops. Still, most contacts were optimistic. Demand for business services was strong. Manufacturing activity was slightly slower, and retail sales grew at a slightly slower pace. Real estate activity also softened. Lending growth was slower, and bankers continued to tighten credit standards. Agricultural bankers expressed concern about the financial viability of some crop producers.

**Prices.** Strong demand and low inventories kept energy prices high. The price of light sweet crude oil consistently sold on the spot market for prices above $30 per barrel, with prices reaching $34-$35 per barrel. Crude oil inventories fell and are now 9-10 percent below the levels of last year. Primary heating oil inventories also remained very low, as much as 30 percent below the levels of last year, despite high levels of output from US refiners. The arrival of cold weather in the Midwest and Northeast drove wholesale prices over a dollar per gallon in early November. Refiners’ margins have been very high. Natural gas prices are up 60 percent from a year ago and are setting record highs; inventories are about 9 percent under the levels of a year ago. Competition for limited resources is leading to rising prices for oil services and machinery. Prices for drilling equipment have increased slowly in this oil cycle, despite high oil and natural gas prices.

Some business service firms also reported increasing fees, with others planning fee increases early next year. However, there were many reports of falling prices. Retailers said that selling prices were at the same level or lower than a few weeks ago. Petrochemical prices continued to fall, and producer’s margins are being squeezed by high natural gas and oil prices. Rising chemical production capacity, both domestically and in Asia, are adding to inventories, pushing down the price of key products such as polyethylene, polypropylene and polyvinyl chloride. Telecommunications equipment
prices are relatively flat and beginning to fall because of intense competition and rising inventory levels of equipment.

**Labor Markets.** Labor markets remain very tight in the service sector, but continued to loosen in manufacturing. Service firms say the tight labor market is leading to wage hikes. Hiring has become easier for some manufacturing industries, while others are no longer hiring or are reducing their workforce. Despite the looser labor market, manufacturers said wages were up 3 percent to 4 percent.

**Manufacturing.** Overall manufacturing activity continued to soften over the past six weeks but remained at moderately high levels. Cold, wet weather dampened sales of many construction-related products, such as cement and concrete. Brick sales softened faster than the normal seasonal decline. Contacts disagreed about how fast sales had softened, with some reporting a “slight” softening and others reporting “considerable” softening. Brick inventories are still low, but are growing. Demand for primary metals has weakened from very strong to “fairly” strong, with weak demand for the metal extrusion, truck-trailer and automotive industries but strong growth for drill pipe used in the oil field. Sales of fabricated metals cooled but remain at high levels, with continued strong demand for metals used in the semiconductor and telecom market. Telecommunications equipment manufacturers reported slowing demand and rising inventory. Contacts say they are keeping costs low while working on the next generation of technology, when they expect sales will explode again. Refiners are operating at high levels to take advantage of strong profit margins.

**Services.** Demand for business services remained strong since the last beige book. Temporary firms reported robust sales, and said they are pleased that the normal seasonal pick up occurred as usual. Temporary firms reported strong demand for their services from all sectors of the economy. Legal firms continued to report signs of a slowing economy, with increased demand for bankruptcy and litigation work. Accounting firms said demand was slower for their services, which they attribute to uncertainty surrounding the financial markets and the presidential election.

**Retail Sales.** Retailers reported slightly slower sales growth over the past few weeks. Sales growth softened in late October and early November but picked up significantly over the Thanksgiving
weekend. Sales at discount stores tended to be stronger than sales at higher end stores, and several retailers said they discounted selling prices more than usual. Contacts were happy with the level of sales and relieved that sales growth had picked up over the weekend. Auto dealers reported slower sales growth, and said inventories are higher than desired and growing.

Financial Services. Lending growth softened, particularly for autos and real estate, leading contacts to be more cautious. Lending was still strong to industries benefiting from high oil prices. In general, large banks reported more slowing than smaller, community oriented institutions. Interest rate spreads have begun to cause some concern on the part of banks. Banks continued to tighten credit standards, and competition among banks is becoming less of a concern. Respondents reported no appreciable change in loan quality, but quarterly reports suggest that credit quality is weakening.

Construction and Real Estate. Real estate activity remained “fairly strong” according to contacts but continues to decline from the very high levels reported earlier in the year. Construction activity has also declined. Demand for commercial space was “relatively quiet” in recent weeks, which contacts attributed to seasonal slowing, as well as stock market and presidential election uncertainty. There continues to be little commercial construction, and contacts say secondary capital markets have a lingering perception that Texas markets are overbuilt, despite low vacancy rates in several areas. Multifamily markets are being swamped as new construction comes on line. Rent concessions have increased, with apartment owners offering incentives to lure tenants, such as three months free rent. Home building is strong in Houston but has slowed in the rest of the District, which contacts attribute to weaker demand and heavy rains.

Energy. The domestic rig count flattened in recent weeks, and contacts feel this may be the maximum for a while because of limited equipment and labor. There is growing competition for rigs and crews both abroad and at home. The complexity of drilling projects continues to grow, with increased oil-directed, deep drilling in the Gulf of Mexico. Revenue for oil service companies is also helped by more international work, particularly in Latin America and the Middle East.


Agriculture. Heavy rainfall improved growing conditions, helping freshly planted wheat and oats, aiding forage growth and replenishing stock ponds. Some areas are receiving replacement livestock but herd culling and supplemental feeding continued in other areas. The rain was too late to help summer crops that were being harvested and further damaged these drought-ravaged fields. Some agricultural bankers are expressing concern about the future viability of some crop producers, and note that government payments have prevented significant loan repayment problems.
TWELFTH DISTRICT—SAN FRANCISCO

Summary

Reports from Twelfth District contacts indicate overall solid expansion in most states, although signs of slowing were apparent in some industries. Better than expected holiday sales boosted overall sales growth among retailers and service providers in the District in recent weeks. Manufacturers of aircraft and high-tech goods reported solid, but slower, sales growth, while producers of other manufactured goods noted a decline in demand, particularly from foreign buyers. Conditions among District agricultural producers were mixed, as demand and prices improved for ranchers but remained weak for farmers. District real estate and construction activity remained at high levels, due largely to a pickup in demand for home remodeling and ongoing strength in commercial real estate markets. Credit demand in the District remained high in recent months, although some borrowers faced tighter terms for loans. Respondents reported that energy and wage costs have continued to rise, but competitive have pressures prevented producers from passing increased costs on to consumers.

Wages and Prices

Labor markets remained tight throughout much of the District. Labor shortages in the construction industry, particularly of skilled workers such as plumbers and electricians, reportedly have increased building costs and, in some cases, delayed the completion of projects. Contacts in the energy industry noted that wages for workers involved in the exploration, production, and processing of oil and natural gas rose rapidly in recent months, increasing at double-digit rates in some areas. District retailers reported difficulty recruiting
temporary employees for the holiday season, forcing many firms to offer higher wages and larger employee discounts on merchandise than originally budgeted. Nearly all District contacts noted that employees with financial or computer skills remain in short supply.

District contacts reported that increased job-hopping by employees has begun to affect compensation practices. One contact noted that signing and retention bonuses are being replaced by company cars and other perks that end when the employment relationship terminates. Respondents noted that while labor, fuel, and energy costs have risen in recent months, competitive pressures, both domestic and foreign, have prevented most producers from raising the prices of final goods and services.

Retail Trade and Services

District retailers reported better than expected sales growth in recent weeks, as consumers responded to a rash of pre-holiday discounting on popular, mainline merchandise. Sales growth reportedly was strongest at “big box” retailers, which used pre-holiday discounting, merchandise give-aways, and “earlybird” contests to attract customers. Department store sales also beat expectations, although sales growth was more modest. Respondents indicated that toys—particularly electronic games and scooters—were among the fastest sellers, followed by consumer electronics, apparel, and decorative gift items. In some areas, sales of electronic goods reportedly were constrained by shortages of the most popular items, such as personal computing devices and game consoles.

Service industry respondents in most District states reported strong growth in recent weeks. Demand for tele communications (cell phones), data communications (DSL), and cable
television remained robust, lengthening the time to service in a number of areas. Despite the
dot-com shakeout, demand for software and information processing services remained intense,
and computer services workers were in short supply. Growth in demand for warehouse and
distribution services picked up in recent months, as retailers prepared for the holiday selling
season. In California and Hawaii, strong demand for hotels pushed occupancy rates up and
boosted room prices.

Manufacturing

District manufacturers reported sound sales in recent weeks, but they noted that the dot-
com shakeout, volatility in the stock market, and the rising exchange value of the dollar have
begun to slow sales growth. Contacts noted that fluctuations in the market for high-tech stocks
and the closure of many dot-com businesses damped demand for Internet-related hardware and
electronics. Biotech companies also saw slower growth in orders, and access to financing
reportedly has begun to affect development schedules for new products. In contrast,
semiconductor manufacturers continued to report robust sales growth and increasing capacity
utilization, but noted that prices on all but the fastest chips have begun to decline rapidly.
Contacts in the machine tool industry noted that order growth remained strong, but order
cancellations picked up in recent weeks, particularly from foreign buyers. Lumber and wood
product manufacturers as well as apparel makers noted that increased import competition has
begun to temper demand and damp sales.

Agriculture and Resource-related Industries

Conditions for District agricultural producers were mixed during the most recent survey
period. Improved weather, strong demand, and firm prices produced good conditions for ranchers in the District. In contrast, farmers struggled with low prices and rising energy and distribution costs. Both ranchers and farmers noted that they are unable to pass increased energy costs on to wholesalers or retailers. District energy producers reported strong demand for oil, natural gas, and electricity.

Real Estate and Construction

Real estate construction and sales activity remained at high levels in most District states. Contacts in many District states noted that home sales have slowed and sales price appreciation has decelerated from earlier in the year, tempering growth in new residential construction. At the same time, contracts for home remodeling have picked up, keeping residential construction activity at high levels. Commercial real estate markets remained strong in most District states, although building permit activity reportedly is down from last year. Building materials and skilled construction workers remain in short supply throughout the District. Respondents noted that material and worker shortages have begun to boost wage rates and building costs, and lengthen completion times.

Financial Institutions

Credit demand in the Twelfth District remained strong in recent weeks, although some borrowers faced tighter terms. Commercial loan demand at banks remained high, and banking contacts reported ample capital to meet borrowers’ demands. 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 some farmers have begun to decrease the quality of their agricultural loan portfolios.