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Summary of Commentary on \_\_\_\_\_

# **Current Economic Conditions**

by Federal Reserve District

April 1998

**SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS  
BY FEDERAL RESERVE DISTRICT**

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**SUMMARY<sup>1</sup>**

Reports from Federal Reserve Districts indicated that economic growth generally continued to be moderate to strong in March and April. Expansion was occurring in nearly all Districts, although Dallas reported some recent signs of slowing growth amid basically strong regional economic conditions and Minneapolis noted some weakening of business activity in parts of that District. Consumer spending was generally robust in all regions of the country. Manufacturing activity advanced. Real estate markets were generally strong. Agricultural conditions were mixed, as was lending activity. Activity has eased in oil drilling and mining.

Labor markets continued to be tight. There was some evidence of increased wage pressures in service industries and for computer and technical professionals. Despite increases in labor costs, business contacts indicated that competitive pressures were holding prices in check for most goods. Some increases in service prices were noted, however, in the Dallas and San Francisco Districts.

**Consumer Spending**

Retail sales rose generally throughout the country in April. In New York, Cleveland, Chicago, and Dallas the strength of the gain exceeded merchants' expectations. Increases were said to be more modest in Philadelphia and Richmond, and retailers in several Districts cautioned that the April results were probably boosted above trend by this year's late Easter. Spring apparel

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<sup>1</sup>Prepared at the Federal Reserve Bank of Philadelphia based on information collected before April 27, 1998. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a comment on the views of Federal Reserve officials.

has been selling well in Boston, New York, Philadelphia, Atlanta, and Minneapolis. Healthy sales of home furnishings, furniture, and appliances were also cited by several Districts. Merchants said store inventories were in line with sales in Boston, New York, Cleveland, Atlanta, Chicago, and Kansas City, but some retailers in Richmond said inventories were at higher than desired levels, although they were not increasing.

In most of the Districts reporting on auto sales, demand has slipped. In Philadelphia, Chicago, Minneapolis, Kansas City, and San Francisco, sales of cars have softened in recent weeks. In contrast, Cleveland and Dallas reported recent increases in motor vehicle sales.

Spring tourism was described as very good in Richmond and Atlanta. Reservations for summer lodging were strong in coastal areas of the Richmond District, and Atlanta reported that cruise bookings were at an all time high in Miami. But the recently concluded winter tourism season in the Minneapolis District was called disappointing.

### **Manufacturing**

Manufacturing activity continued to expand. In March and April, strong gains were recorded in Chicago and Minneapolis. Activity grew in Boston, New York, Cleveland, Richmond, St. Louis, Kansas City, and San Francisco. Philadelphia, Atlanta, and Dallas also reported gains, but the rate of growth in those Districts has slowed from earlier in the year.

Manufacturing output has increased in a wide variety of industries. In particular, construction materials and home-related goods, such as furniture and appliances, were mentioned by several Districts. In contrast, output of electronic items was said to be down in Boston and Chicago, and chemical production fell in St. Louis and Dallas. Declining exports to Asia were cited as the main cause of weakness in these industries. Richmond noted falling exports of

machinery. Increased competition from imports was reported by manufacturers of metals in Philadelphia and chemical manufacturers in Cleveland.

### **Real Estate and Construction**

All Districts reporting on commercial real estate markets described improvement. For office buildings, rents were rising, vacancy rates were falling, and construction activity was rising. Boston and Richmond reported speculative construction in areas around Boston and the District of Columbia, respectively. New York City office rental costs have increased markedly since the beginning of the year. Besides these Districts, increases in office occupancy and construction were reported from Cleveland, St. Louis, Minneapolis, Dallas, and Atlanta. However, Atlanta also noted that vacancy rates in the industrial sector have risen slightly. San Francisco noted increased construction in Alaska for highways and oil-development infrastructure.

Demand for housing was on the rise in seven of the eight Districts that obtained information on this sector. Home construction was increasing in April in New York, Cleveland, Chicago, St. Louis, Minneapolis, and Kansas City. Sales of new and existing homes were up in Richmond, as were home prices. Real estate contacts in several Districts were wary that recent warm weather has encouraged home buying earlier this year than normal and that sales could slip later. Perhaps as a harbinger of this trend, home sales in Atlanta fell in April after an increase in March.

### **Agriculture**

Agricultural conditions were mixed, as favorable developments for some crops were offset by weakness in livestock markets. The winter wheat crop was said to be in good

condition in the Cleveland, St. Louis, and Kansas City Districts; however, St. Louis noted some damage to the peach crop because of freezing conditions earlier this season. Spring field preparation and planting was ahead of schedule in Cleveland, on schedule in Richmond and Dallas, but behind schedule in Chicago, St. Louis, and Kansas City because of wet ground. Wet conditions have also delayed planting of cotton and some other crops in the San Francisco District.

Low livestock and feed grain prices have seriously impaired farm income in the Minneapolis District, and a fall in hog prices in Kansas City has led to some liquidation of herds. Livestock sales and prices were said to be waning in San Francisco also, although Chicago reported some firming of feed cattle prices in April.

### **Natural Resource Industries**

Oil-drilling activity has declined recently in the three Districts that reported on it: Minneapolis, Kansas City, and Dallas. Dallas did note, however, that drilling for gas remains active, although below the strong level recorded near the end of last year. Minneapolis noted that mining operations for most minerals have been reduced because of low prices.

### **Financial Services and Credit**

Most of the Districts reporting on loan demand indicated that commercial lending was rising and residential mortgage activity was up, but consumer loan demand had slipped recently. Six Districts were recording increases in bank lending to businesses while one District, Cleveland, said business borrowing was flat. The increases in commercial and industrial loans were posted in Philadelphia, Richmond, Chicago, St. Louis, Kansas City, and San Francisco. Mortgage originations, both new and refinancings, were up in all of the Districts that mentioned

real estate lending: New York, Philadelphia, Richmond, Atlanta, Chicago, Kansas City, and San Francisco.

Consumer lending varied. In recent weeks it was up in Atlanta and Chicago, down in Philadelphia, St. Louis, and Kansas City, and flat in New York and Cleveland. Despite these mixed results, bankers said the quality of their institutions' consumer loan portfolios was either steady (in Atlanta) or slightly improved (in Philadelphia, Cleveland, and Chicago).

### **Employment and Wages**

Seven Districts obtained assessments of their overall labor markets from business contacts, and in all these, conditions were described as tight. Strong labor demand was noted in Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, and Dallas.

Wage increases in a variety of industries were estimated to be in a range of 2 to 6 percent above last year's levels according to surveys in Boston and Cleveland. Boston noted that computer professionals and engineers were getting wage increases of 8 to 10 percent, and Cleveland reported that temporary help firms were boosting wages by 5 to 20 percent.

Richmond and Dallas received reports that wage increases were becoming more frequent in service industries, but the increases were not sharp. In Atlanta and Chicago, wage gains were said to be more widespread, but the size of the increases was not great. Contacts in St. Louis said upward pressure on wages was growing.

### **Prices**

Information obtained by most Districts suggests that goods prices at most stages of production are nearly steady. Retail prices were steady according to reports obtained by Boston, New York, Minneapolis, Kansas City, and Dallas. Prices for manufacturing inputs were said to



be steady in Boston, Philadelphia, Cleveland, Minneapolis, and San Francisco. Some increases were noted in the Kansas City District, however, along with declines. As already noted, livestock prices were said to be weak in San Francisco and Minneapolis, and Minneapolis reported low prices for natural resource commodities. Oil prices also were reported to be low. One factor apparently keeping goods prices in check is import competition in intermediate and finished consumer products, primarily from Asian countries, as reported to New York, Philadelphia, Cleveland, Minneapolis, and Dallas. While the prices of most goods are nearly steady, growing construction activity has resulted in some price increases for construction materials, especially lumber. In contrast to the prices of goods, increases in the prices of business services were noted by Dallas and San Francisco.

## FIRST DISTRICT - BOSTON

The First District economy remains strong. Retail and manufacturing revenues generally are rising except for Asia-related business. Commercial real estate markets are improving throughout the region. Goods prices remain largely stable, but some import prices are down, office rents are rising, and some technical workers are commanding near double-digit pay raises.

Retail

Most First District retail contacts report that sales in recent months grew at a strong pace of about 5 to 10 percent from a year earlier. These results either matched or exceeded expectations. Sectors of strength were upscale and mail-order apparel, office supplies and office technology products, and hardware. General weakness was reported only in men's casual wear. However, two apparel retailers also note a drop-off in sales to Asian customers. In all sectors, inventories are at desired levels. Looking forward, retailers expect sales growth in the 4 to 7 percent range.

Retailers report that, other than computer help, tight labor markets are not constraining their operations. Most hiring is related to store expansions. Wage growth for most workers has picked up a notch, to a 4 to 6 percent pace. Wages for computer-related occupations are said to be increasing at an 8 to 10 percent rate.

Most respondents report that both sales prices and gross margins are holding steady. However, the cost of some merchandise has declined as a result of import price reductions. Other non-labor costs are stable. Retailers report that capital spending increases are primarily technology-related. In contrast with 1997, they are not planning major store expansions, except in the very fast-growing office supply sector.

Manufacturing

About one-half of the First District manufacturers contacted indicate that recent business is up at a single-digit rate from a year ago. Of the remainder, about the same number report faster growth as report

declines. Contacts indicate brisk activity and some capacity constraints for telecommunications equipment, automotive and aircraft components, furniture and home appliances, cable, and packaging. Demand by small businesses for office equipment and supplies is said to be growing strongly. Manufacturers in these various product lines remain upbeat about future trends. By contrast, a maker of industrial machinery, a paper manufacturer, and several companies selling to the computer and electronics industries express disappointment with recent results or see signs of slower activity ahead.

Exporters indicate that Asian business has slowed, mostly in line with expectations. One reports rising liquidity problems for Asian customers, particularly smaller firms. A couple of contacts point to continuing risks due to structural problems in the Chinese and Japanese economies, although another firm indicated that its sales to China remain strong. European sales have picked up smartly for most contacts, although less so for consumer products than for capital goods.

Most manufacturers indicate that their materials costs and selling prices remain generally stable. However, computer memory prices are falling dramatically and paper prices are slipping. One contact indicates that some materials prices are so low as to provide stockpiling opportunities. On the other hand, other manufacturers mention cost increases related to tighter commercial real estate markets and rising prices for furniture-grade lumber. About one-third of the contacts have been able to raise their prices in the range of 2 to 4 percent for products in strong demand or products with new features.

Most contacts have been holding U.S. employment steady or hiring only selectively and they generally expect to continue in this mode. While a few respondents in high tech have tended to be more aggressive in hiring, even they currently expect to implement small reductions or at least reassess the pace of hiring in the near future. Recent company-wide pay increases are said to be in the range of 2 to 6 percent, and only about one-sixth of the manufacturers contacted say that general pay raises have accelerated. However, on the whole respondents appear more concerned than in the past about the scarcity and high cost of information technology personnel. Various contacts also mention challenges in recruiting and retaining

engineers and R&D specialists. Pay for such high-demand occupations is rising at rates of about 8 to 10 percent. Manufacturers with around-the-clock production schedules are having trouble finding adequate help for off-hour shifts, but base wage increases for factory workers remain rather modest.

#### Commercial Real Estate

The commercial real estate market reportedly has improved throughout New England. The downtown Boston office market is said to be extremely tight. Vacancy rates are 3 to 4 percent and rental rates for prime space have reached \$50 per square foot. Overall first quarter rental rates were 10 to 12 percent higher than last year. There is virtually no new construction downtown and no available space for larger firms. Several companies are reportedly moving to the suburbs and beyond. The suburban Boston office market is also very strong, with vacancy rates at 5 to 6 percent and considerable speculative construction; some contacts are becoming concerned that new building is outpacing demand. Apartment buildings are in demand, but the retail market in the Boston suburbs has slowed and rental rates have stopped rising in that sector.

The rest of New England is active as well. Connecticut reportedly is doing very well throughout; even Greater Hartford's office market vacancy rates have dropped to 17 or 18 percent. Increases in rental rates are reported in Connecticut and Rhode Island. While the downtown Providence office market remains flat, its suburban office and industrial markets have improved substantially. Nonetheless, outside of the Boston suburbs no significant new development is currently reported anywhere in the region. All the contacts are optimistic and expect the strength in commercial real estate markets to continue at least through the end of the year.

## SECOND DISTRICT--NEW YORK

The Second District's economy has maintained sturdy growth since the last report. Major retailers indicate that sales generally continued to run above plan in March and early April, while both selling prices and merchandise costs held steady. Office rents accelerated further in the first quarter, with most parts of the New York metropolitan area registering double-digit growth rates; vacancy rates continued to fall. The housing market also continued to gain momentum in the first quarter. Regional purchasing managers report moderate growth in manufacturing activity, along with flat merchandise costs, but escalating fees for contract services. Finally, local banks note a further drop in consumer delinquency rates, and some moderation in loan demand growth.

**Consumer Spending**

Most retailers report that sales were above plan in March and the first half of April. Although the late Easter distorted sales patterns in March and early April, year-over-year same-store sales gains for the combined period ranged from 3 to 9 percent. While year-over-year gains generally continued to be strongest in the apparel category, a number of retailers note significant improvement in home-related goods since the start of this year. One large chain that had experienced chronically sluggish sales at its home stores for most of last year now reports that this category is doing "exceptionally well."

Virtually all contacts report that inventories are in good shape, with only one retailer noting a modest overhang of certain consumer durables. Retail selling prices and merchandise costs were said to be flat to down slightly. Most contacts say that the Asian crisis has reduced merchandise costs only modestly and only in certain categories—mainly electronics and lower-end apparel. While most retailers anticipate some further reductions in selling prices in the second half of this year, none expects dramatic cuts. There were no reports of significant wage increases, though one contact reports a recent noticeable increase in training time for new hires and expects that the declining quality of the labor pool

may place upward pressure on the firm's wage structure later this year.

### **Construction & Real Estate**

Office rents throughout the New York City area rose sharply in the first quarter, as available space became increasingly scarce. In the first three months of 1998, the average asking rent rose at a 19 percent annual rate in Midtown Manhattan and at a 17 percent rate in Lower Manhattan and Midtown South. Rent increases in the major suburban markets—northern New Jersey, Long Island, Westchester and Fairfield Counties—ranged from 9 to 11 percent, at an annualized rate. Vacancy rates across the metropolitan New York area are down 3 to 6 percentage points over the past year, with many of these markets described as “tight as a drum.”

Housing markets in New York and New Jersey continued to strengthen in the first quarter. In New York State, single-family home sales were 9 percent above a year ago in the first quarter, while prices rose nearly 6 percent. In New Jersey, home prices are also reported to be “moving up at a pretty good pace,” though sales volume has been limited by a shortage of homes on the market and a chronic dearth of speculative building. Some New Jersey builders remark that new single-family home sales and buyer traffic, which were unusually strong in January and February, slowed significantly in recent weeks; however, an industry expert attributes this pattern to mild winter weather and a secular trend toward an earlier buying season. Construction picked up in the first quarter, as single-family housing permits in New York and New Jersey jumped nearly 18 percent from a year earlier. In addition, New Jersey contractors note that remodeling activity is running above last year's exceptionally strong levels.

The multi-family sector is also quite robust. One contact notes that new townhouse and apartment developments along New Jersey's “Gold Coast” (across the Hudson River from Manhattan) are being met with unexpectedly strong demand, prompting some developers to raise their asking prices. Similarly, New York City's co-op and condo market remains strong, as prices continue to post double-

digit gains over a year ago. However, first-quarter multi-family permits in New York and New Jersey fell short of exceptionally high early-1997 levels by 17 percent.

### **Other Business Activity**

Surveys of regional purchasing managers indicate continued strength in manufacturing and stable prices in March. Buffalo purchasers report that new orders, which had surged in February, rose at a more normal pace in March, while production and employment continued to expand moderately. Rochester's survey indicates a sharp improvement in local business conditions in March, compared with February—purchasing managers note a marked pickup in employment, later deliveries and increased optimism about the near-term outlook (despite recent major local layoff announcements). New York purchasing managers report that manufacturing-sector conditions were generally steady in March, following sharp improvement in February, while non-manufacturing conditions continued to improve. Purchasers in all three areas indicate that merchandise costs were steady to down slightly in March; however, New York purchasers observe further increases in costs of contracted services—most notably, computer consultants, engineering, architectural and construction services.

### **Financial Developments**

According to a survey of senior loan officers at small and medium-sized banks in the District, overall demand for loans increased over the past two months, though the pace of growth was slower than in the last report. Demand for residential mortgages continued to increase, with 45 percent of banks noting higher demand in this category. However, demand for consumer loans remained stable.

Credit standards remained substantially unchanged, though a few banks report some tightening in the commercial, industrial and nonresidential mortgage categories. Interest rates on both loans and deposits continued to decline, on net. Delinquency rates dipped further since the last report—especially on consumer loans—indicating continued improvement in the quality of credit.

THIRD DISTRICT - PHILADELPHIA

Business conditions in the Third District were mainly positive in April. Manufacturers indicated that activity increased during the month, although the rate of gain had eased from the first quarter. Retail sales have been rising, but sales of autos have been virtually flat. Bank lending has edged down because of a decline in consumer loans while commercial and real estate loans have increased. Industrial prices in the region have been steady, and retail prices appear to be mixed. Selling prices for autos have softened, but prices for general merchandise have firmed as stores have put spring merchandise on display after markdowns to clear out winter merchandise.

MANUFACTURING

Industrial activity in the Third District continued to move upward in April, according to reports from manufacturers, but the rate of gain appeared to be easing just slightly from the first quarter's pace. About one-third of the firms contacted were posting increases in orders and stepping up shipments during April; for half of the firms reporting, these measures were steady. Less than one in five companies said demand for their products had decreased. Most of the firms surveyed said order backlogs and delivery times were steady.

Increased business was noted in nearly all of the major manufacturing sectors in the District, with gains especially strong for makers of paper products, rubber, and plastics. Some slowing in demand was reported by producers of apparel and primary metals.

Employment at Third District manufacturers was steady, on balance, in April, and



### III-2

weekly work hours edged down. Nonetheless, firms in the electrical, electronics, and instrumentation sectors were hiring more workers. Electronics companies continued to report difficulty recruiting qualified engineers and technicians.

Increased supply has made some markets more competitive. Firms in the metals and metal products industry indicated that foreign competition has increased. Chemical producers said selling prices were being kept in check as a result of recent expansion in domestic capacity. For industrial prices in general, eight out of ten of the companies polled for this report said their input costs have been steady, and nine out of ten said they were keeping the prices of their own products level.

#### RETAIL

Retailers in the region gave generally upbeat reports for April, after some slowing in sales growth in March. Merchants said the March slowdown was due to the late Easter this year and mild weather, which hampered sales of goods that usually are in greater demand in winter months, such as outerwear and automobile batteries and parts. Some strength has returned to sales since mid-April, although year-over-year gains for the month have slipped from the increases posted in January and February. Retailers said they had to mark down winter merchandise sharply to clear inventories, but sales of spring merchandise, mainly apparel and lawn and garden equipment, have been good, bolstering selling margins. Sales of home furnishings and appliances have also been healthy.

Third District auto dealers gave mixed reports for April; most import dealers said sales were on the rise, but many of the domestic dealers surveyed indicated sales had slowed recently. On balance, sales of cars and light trucks in the region appear to have edged down from the first

### III-3

quarter's pace and from April of last year. Dealers generally indicated that inventories were in balance with sales, despite the recent slowdown. Both domestic and import dealers were offering rebates and other incentives to boost sales, reducing effective selling prices.

Sales of heavy trucks have risen sharply in the region since the beginning of the year. Dealers reported that some manufacturers are currently quoting delivery times of up to one year for new orders. Demand for trucks with advanced technology features is said to be especially strong.

#### FINANCE

According to bankers contacted for this report, total loan volume outstanding at major Third District banks has been edging down since the beginning of March, mainly because of a decline in consumer lending. While bankers believe the decline is largely the result of slackening demand for credit, several noted that they have been implementing stricter credit standards, which has resulted in some loss of customers as well as improvement in the quality of banks' consumer loan portfolios.

Residential real estate lending activity has increased at financial institutions in the region. Applications for both refinanced and new purchase mortgages have increased. Borrowers have been favoring fixed-rate loans for mortgages and for home equity loans.

Loans to businesses have increased modestly in the Third District. Commercial bank loan officers reported that demand for credit to support capacity expansion was common among small and middle market companies. There were some reports of firming interest rates for loans to companies of this size. In contrast, some bankers reported that interest rates for large loans remained low, and they were turning down offers to participate in these credits.

## IV-1

### **Fourth District - Cleveland**

#### **General Business Conditions**

Conditions in the Fourth District continue to be strong. Both residential and commercial construction remain healthy throughout the District, with high activity in Columbus and Pittsburgh. District bankers do not detect any extraordinary speculation in the real estate market. Price pressures for goods and services are generally slight.

Temporary agencies report great difficulty in finding workers. Metropolitan agencies have a particularly high demand for administrative assistants and other high-end clerical workers, while suburban firms are experiencing a shortage of general laborers. In addition to the traditional want ads, agencies are recruiting at churches, job fairs, colleges, and state employment agencies. All say that wages have risen, with estimated increases ranging from 5% to 20%. Retailers, pressed to find qualified individuals at all skill levels, have changed their incentives and recruiting procedures to attract new employees. Some manufacturers report a long-term problem in hiring people with a strong electronics background.

Organized labor is seeing modest increases (averaging about 3% to 3.75%) in annual wage growth for skilled manufacturing and government workers. There have been no increases in employee benefits; in fact, some firms are shifting a larger share of premiums to employees. Job security continues to be a high concern for unions, whose success in obtaining more job security provisions and longer contracts has been mixed.

#### **Manufacturing**

Production has increased, and new orders continue at the high levels of previous months. Inventories may have risen, largely because of a planned effort to balance production with increased demand. Firms report no price pressure in raw materials, with smaller increases than in previous months. Back orders have also increased. Auto

## IV-2

suppliers report strong sales, although intense competition for their product is keeping prices low.

In general, conditions in the chemical industry are good. Most companies are doing well in year-over-year terms, and they expect sales to continue improving in 1998. Several of them have recently expanded their capacity. Many companies are feeling the effects of the currency crisis in Asia, where aggressive pricing is increasing competition for manufacturers of chemical raw materials, while benefiting companies who use these materials to manufacture more specialized chemicals and plastics. Companies with less exposure to the Asian crisis tend to be more confident about the future.

### **Consumer Spending**

Overall, March and April sales have been much better than expected. Retailers are optimistic for this quarter, expecting sales to increase 2.5% to 10%. Much of this gain is expected to occur in the "discount stores," because consumers continue to be extremely price conscious. Suppliers' and retailers' prices remain steady, with only one source reporting an increase of 1%. Inventory levels are considered quite satisfactory.

March and April sales of vehicles have offset a slight weakness in January and February. Most dealers report a significant year-over-year increase in new vehicle sales. Their supply of key vehicles remains a problem, because sports utility vehicles, pickups, and some minivans are still selling fast, as are used vehicles. As a result of these strong sales, manufacturers' incentives, such as low interest rates or cash back, have tapered off slightly from their previous high levels. Most dealers expect sales in the coming months to be up significantly from the same period last year.

### **Transportation**

Trucking firms report increased business in March and April after two slow months. Steady growth is expected for 1998, and business has increased on a year-over-year basis. Competition is picking up, making it difficult to raise prices.

## IV-3

### **Agriculture**

District farmers intend to devote less acreage to corn than last year. There will be little to no change in the land planted in soybeans and tobacco. Unusually warm, wet weather has allowed early sowing of vegetables and other spring crops. There is some concern that standing water may affect the corn crop adversely, but most tobacco is rated good to excellent. Barley and winter wheat are growing well in all District states, and the unusual weather has produced excellent pasture conditions.

### **Banking and Finance**

District lending activity remains flat for both commercial and consumer loans. Mortgage refinancing continues strong. Consumer loans delinquencies are also flat, with some banks noting improvements, and commercial loan delinquencies are unchanged at low levels. Some small to medium banks in the District believe that recent mergers activity may allow them to acquire a larger share of the small business and consumer load markets.

### **FIFTH DISTRICT - RICHMOND**

**Overview:** The Fifth District economy expanded at a moderate pace between early March and late April. Service sector revenue growth quickened, led by real estate and air transportation firms; and retail sales growth, after pausing in March, resumed in recent weeks. Although Asian economic problems trimmed export sales for some manufacturers, overall demand facing the sector remained solid. Residential and commercial real estate activity trended upward and builders nearly got back on schedule following earlier rain delays. Bank lending remained brisk for most loan categories. Labor markets continued to be tight; more employers raised wages to attract and retain qualified workers. Prices of goods and services changed little.

**Retail:** Aided by milder weather, consumer spending rebounded somewhat in recent weeks following disappointing March sales. The pace of spring apparel sales “dropped a step or two” in late March because consumers had pushed some seasonal purchases into preceding months. Some apparel contacts, though, reported a small boost in sales of summer clothing since Easter. Retailers said that shopper traffic was little changed since early March and that inventories held steady, although at higher levels than some preferred. Merchants told us their biggest problem continued to be a shortage of qualified workers; a growing number raised wages in recent weeks in order to retain experienced employees and attract new applicants.

**Services:** District service producers reported very favorable business conditions in recent weeks. Firms’ revenues grew more quickly, especially at real estate- and air transportation-related businesses. In contrast, wholesalers reported that their revenues fell sharply. Demand for business services intensified in recent weeks. A North Carolina printer noted that his clients increasingly “wanted it all and wanted it all now,” and he questioned his ability to meet demand this summer when his employees take vacation. Concerns about labor availability were more widespread in recent weeks. Service producers said that they were having greater difficulty finding qualified workers--and some also reported greater employee turnover. Reports of higher wage offers were more common, although few firms noted sharp increases.

**Manufacturing:** Since our last report, manufacturing activity grew modestly. Shipments and new orders edged higher, while backlogs fell slightly. Manufacturers continued

to add workers, but many said that qualified workers were increasingly hard to find. A contact in the food industry noted that he could find good candidates for salaried positions, but had difficulty finding qualified hourly workers. In a few pockets though, tight labor conditions weren't a problem; two textile manufacturers reported that they had cut hours because their shipments and new orders were off.

Several manufacturers told us that the financial crisis in Asia had reduced their sales. A producer of machinery and equipment said his company had suffered a 20 percent reduction in exports to Asia in recent weeks, and an electrical products producer had curtailed shipments to Korea because his customers there were having difficulty securing credit. Domestic sales fell for a textile producer in North Carolina, who explained that, despite having state-of-the-art equipment, he couldn't compete with cheaper Asian labor.

**Finance:** District banks reported somewhat stronger lending activity in March and April. Commercial and mortgage lending advanced slightly above the high levels reported earlier in the year; a Virginia banker noted that the number of mortgage loans she had closed so far this year had already exceeded the usual yearly volume. Business expansions spurred by strong economic conditions underpinned greater demand for commercial loans. Competition to provide commercial loans remained intense; a North Carolina banker noted "there are four banks chasing every deal" and another added that margins had become "razor thin." In consumer lending, somewhat stronger activity was attributed in part to consumers needing money to pay income taxes.

**Real Estate:** Real estate activity expanded from already high levels in many parts of the District in recent weeks. Realtors reported that home sales strengthened and that customer traffic picked up in April, especially for entry-level homes. A realtor in Richmond, Va., noted that sales were "hopping" and said it was the best market he had seen in twenty years. A realtor in Greenville, S.C., was equally upbeat, describing "gangbuster" sales there. Home prices were moderately higher in most areas, although they were little changed in West Virginia. Drier weather across most of the District boosted housing starts and helped builders get back on track after rain delays earlier in the year.

On the commercial side, a real estate contact described activity as “trucking right along” with slight increases in construction and more talk of new deals. In the Washington, D.C. area, both build-to-suit and speculative building activity accelerated. Several areas also experienced slight increases in retail construction, especially for restaurants. Investor interest in new office construction remained high; commercial real estate contacts indicated that “a lot of people,” including some from abroad, were “looking for investments” and there was “a lot of money” chasing deals.

**Tourism:** Tourist activity rose throughout the District despite unseasonably wet weather in March and early April. Bookings for the Easter holiday were well above those of a year ago; the operator of a mountain resort in West Virginia noted that an increase in group bookings had bolstered his business during April. Spending at District shops and restaurants rose at a quicker pace since our last report. Looking ahead, hotels and resorts in coastal areas were already booked solid for the summer months.

**Temporary Employment:** Demand for temporary workers strengthened further in recent weeks. While workers with technical skills remained in much demand, many contacts reported a growing need for entry-level workers. Tight labor markets continued to hamper temporary agencies’ efforts to provide both contingent and “temp-to-perm” workers to local employers. A few contacts at temporary agencies expressed outright frustration about firms increasingly hiring temporary workers to permanent positions; for the agencies, maintaining an adequate pool of temporary workers has become more difficult. Wage increases were more widely reported.

**Agriculture:** Drier weather during the last several weeks allowed many District producers to catch up on spring planting. Many fields remained wet, however, and several agricultural analysts expressed concern about whether planting will remain on schedule. Analysts were also concerned that saturated pastures and moist air conditions could increase the likelihood of disease in livestock, although no problems have been reported. On the upside, above normal rainfall has “greened up” pastures, stepping up cattle grazing and reducing haying requirements.



SIXTH DISTRICT - ATLANTA

**Summary:** Southeastern economic activity continues to expand at a moderate pace, according to business contacts. Most District retailers report that recent sales have met their expectations. New home construction has picked up recently, and overall home sales in March were stronger than a year ago. Manufacturing activity slipped last month, but the outlook remains strong. Reports from the tourism and hospitality industry continue to be positive. Overall, loan demand remains at moderate levels. Contacts continue to express concern over labor shortages for skilled and unskilled workers, but reports of escalating wages are not pervasive. However, contacts noted modest increases in some prices.

**Consumer Spending:** According to retail contacts, March sales were weak compared with a year ago because Easter was later this year. Early April results were much stronger than the previous year. Overall, most retailers agreed that recent sales had met their expectations, and inventories remain in good shape. Apparel continues to be a strong seller, while home-related sales have been spotty. Contacts expect sales during the second quarter to be up slightly compared with a year ago.

**Construction:** Reports from real estate contacts indicate that both new and existing home sales were stronger in March than a year earlier. However, sales during the first half of April have weakened slightly. Home construction has picked up noticeably from our last report, with the majority of contacts reporting increased activity compared with a year ago. Both Realtors and builders anticipate modest increases in home sales and construction during the second quarter compared with the previous year. However, they expect the District's housing market to slow somewhat in the third quarter.

Commercial real estate markets remain healthy throughout the region. Most suburban and central business district office markets continue to record rising occupancy and rental rates. The industrial sector has begun to show some signs of a slowdown as vacancy rates have risen slightly. Retail markets remain healthy across most of the region. Overall, both developers' and real estate agents' outlooks remain optimistic for the rest of the year.

**Manufacturing:** Although fewer contacts indicated production gains than a month ago, new orders are reportedly beginning to rise, and the factory workweek is increasing for most industries. The factory outlook remains positive, with more contacts expecting to increase employee payrolls and capital expenditures in the near term. New orders for aerospace firms should stabilize regional industry employment levels. The shipyard industry continues to expand along the Gulf Coast, and Louisiana's chemical industry is expanding. However, contacts report that low oil prices led to a fall in drilling activity on land; offshore operations continue at a steady pace. Although the beleaguered apparel industry continues to downsize, two contacts report that closed mills are reopening under new owners, producing different products but hiring former mill workers. High-tech investment is reportedly still rising in the region, but that increase has slowed in recent months. Some contacts are concerned that low gasoline prices and market trends toward larger vehicles will continue to hurt the region's economy car manufacturers. Two pulp producers in Alabama shut down for two weeks because of a fall-off in exports to Asia.

**Tourism and Business Travel:** The tourism and hospitality sector continues to perform well. Airline traffic in and out of Florida remains very strong. Cruise lines out of Miami report the best advance booking patterns in their history. Travel and tourism executives in south Florida continue to have a very positive outlook. Heavy investment by hotel operators restoring flagship

properties in the Miami area is another indicator of strength. Hotel-motel tax collections in Palm Beach are up by double-digits through March. Although bad weather is blamed for slumping hotel occupancy rates in central Florida, new attractions at several theme parks should boost tourism this summer. Mississippi casino revenues were up significantly from a year ago.

**Financial:** Banking contacts report continued moderate growth in loan demand throughout the Southeast. Consumer lending has picked up slightly, and commercial loan demand remains strong. Mortgage loan demand continues to exhibit strength, especially for refinancing. Automobile loan demand has been mixed throughout the region, and most contacts report that consumer loan quality was unchanged.

**Wages and Prices:** Labor shortages continue to be troublesome in parts of the District, and reports of upward wage pressures are frequent but not pervasive. Skilled personnel in the health professions, construction workers, and computer experts are in short supply in parts of Florida. Chemical process workers and shipyard employees are needed in Louisiana, while employers in Nashville are having trouble attracting unskilled to moderately skilled workers and are continuing to pay at least 10 percent over minimum wage to recruit and retain them. More firms are resorting to hiring lesser-skilled workers at entry-level positions and training them on the job.

A greater number of contacts reported price increases than in our last report but, overall, price increases remain moderate. One contact says that strength in residential construction is expected to continue to stimulate lumber price increases and costs of other building materials. Other contacts report firming oil prices keep the outlook bright for Louisiana's energy industry.

## VII-1

### SEVENTH DISTRICT--CHICAGO

**Summary.** The Seventh District economy continued to expand moderately in March and April, with few signs of slowing growth. Consumer spending remained robust with much of the strength resulting from exceptional activity in housing markets. The manufacturing sector continued to operate near capacity with strong new orders and lean inventories, although makers of high-tech electronics experienced considerable softening as a result of weakness in East Asian markets. Overall lending activity was brisk through the reporting period with the consumer segment exceeding most bankers' expectations. Labor markets tightened further and reports of wage increases, though modest, became more frequent. Spring planting was slowed by rain and wet soil in April, but most farmers were not significantly behind schedule.

**Consumer spending.** Retail sales were generally above plan in March and April according to most contacts. Discounters appeared to have fared better than general merchandisers, but none of the retailers reported sales that were below expectations. Contacts at national chains indicated that sales growth in the Midwest was at, or above, their national storewide averages. Items that were selling particularly well included appliances, computers, furniture, lawn and garden equipment, and home improvement items. Merchants attributed brisk sales of these items to strength in the new and existing home markets. Sales in other retail categories were generally described as being in line with expectations. Overall inventory levels were in good shape and promotional activity was relatively unchanged from the same period last year. Some retailers noted that customers were paying down balances on their revolving credit accounts and relying more on cash to make purchases. New vehicle sales improved at some District dealerships, especially for a few luxury car models, although some softness remained due to competition from used vehicles.

**Housing/construction.** Overall construction activity was stronger than expected, led by a weather-related surge in residential activity. Unseasonably warm weather in January and February brought house hunters out earlier than expected and, as a result, new home sales and construction activity have picked up markedly since. A survey of homebuilders revealed that Midwest home sales in April were up significantly from March as well as from April 1997. In addition, near-term expectations of builders are much higher than they were at the same time last year. There was mild concern that strong new home sales in the first quarter may have been borrowing from the second quarter. One lumber supplier stated that new orders were somewhat

## VII-2

softer than he would expect in a very strong market. Sales of existing homes were also booming in the District. Most realtors noted very strong sales with some reporting record levels of activity in the first quarter. Contacts attributed this “surprising” strength to solid economic conditions--tight labor markets, low mortgage interest rates, and the runup in the stock market--as well as the unseasonably warm weather.

**Manufacturing.** Manufacturing activity was very robust in March and April as demand remained strong. Production was reported to be high in virtually all industry segments. Steel and wallboard producers exhibited the most strength and contacts in both industries cited demand from the construction industry as a contributing factor. Production of heavy and agricultural equipment and electronics remained high, but exhibited very little increase. Overall inventories were in good shape but varied widely by industry. Contacts suggested that steel inventories were “quite low,” but had been building. Automobile manufacturers indicated that inventories were slightly high, especially in the small car segment; and electronics producers also noted that inventories were slightly high, but “okay.” Very strong demand from the construction industry buoyed the overall strength in new orders for the region’s steel, wallboard and heavy equipment producers. One contact described the demand for steel as “nothing short of phenomenal.” In contrast, orders for high-tech electronics were weak “across the board,” due in large part to softness in East Asian markets. Light vehicle producers also noted some softening of demand, particularly in the retail segment of the market, although fleet orders remained strong. As a result, automobile manufacturers were planning on increasing the use of incentives on some models, suggesting that the market’s soft pricing environment will continue in the near term. Prices for some of the region’s high-tech electronics were “dropping like a stone” according to one contact, again due to weakness in East Asian markets. On the other hand, steel and wallboard manufacturers were having success at pushing through modest price increases and analysts in both industries expect at least part of the increases to hold.

**Banking/finance.** Lending activity remained very strong in the Midwest over the reporting period, with strength on both the consumer and business sides. Consumer lending was generally described as “better than expected,” due in large part to strength in the housing markets. While slower than in our last report, most bankers indicated that refinancing activity was still robust and exceeding their expectations. In addition, new mortgage originations picked up as a result of the exceptional strength in the housing industry. Some bankers noted that credit card writeoffs continued to improve, but it was unclear if the progress was only temporary. There was

### VII-3

scattered evidence that lenders were tightening standards on some consumer loans. A few dealers reported increasing difficulty in pushing through loans for marginal customers seeking to purchase light vehicles and motorcycles in April. On the business side, lending activity was generally described as strong and steady. New deals continued to come in and strength in the middle market was surprising on the upside, according to one large regional bank. Competition nudged some banks into approving a few deals that wouldn't have been made in the past. However, the concessions appeared to be on the loan terms, not standards, and overall asset quality was reported to be very good.

**Labor markets.** The District's labor markets tightened further in March and April, and upward wage pressures continued to mount. The five-state average unemployment rate was 3.8 percent in March, nearly a full percentage point below the national average. Employment growth in the region remained below the national average in the first three months of 1998, but demand for workers in the Midwest is as strong as, if not stronger than, the nation. Help-wanted advertising, hiring plans surveys, and the employment components of purchasing managers' surveys suggested that demand for labor remained very strong, and contacts throughout the region continued to report broad-based worker shortages. Due to space limitations, a career expo and jobs fair for high school students in the Chicago metro area had to turn away 25 percent of the 200 plus companies that wanted to participate, a first in the event's short history. One Michigan employer summed up the conditions in most of the District, stating that "we will continue to hire as qualified workers apply." Information technology (IT) and construction workers were, as in our last report, most often cited as being in short supply. In Wisconsin, employers were reported to be "stealing" IT workers from other companies, a trend that was driving up wages in those occupations. The strength in the new home market exacerbated shortages of skilled construction workers. Reports of broad-based wage gains were more frequent, with one contact noting that there was "creeping wage inflation, (but) nothing spectacular."

**Agriculture.** The number of acres devoted to corn and soybean planting is expected to be the same as last year according to District farmers, with a modest increase in soybean acres offsetting a decrease in corn acres. Field preparations and planting slowed in April as the result of rain and wet soil, although farmers were not running appreciably behind schedule. Several agricultural banks noted that while farmland values continued to increase, appreciation may slow due to relatively low grain and livestock prices. Milk prices, however, were relatively strong and fed cattle prices moved higher in April.

## VIII-1

### **EIGHTH DISTRICT - ST. LOUIS**

#### **Summary**

The District economy continues to operate at a high level. District contacts, while still having trouble finding qualified workers because of tight labor markets, also report relatively strong growth in their industries and firms. Despite heightened upward pressures on wages, attempts to raise prices have been largely unsuccessful. The solid economy and low mortgage rates are leading to a housing boom in most parts of the District. Housing sales, construction and prices are up. Loan demand remains relatively strong at large District banks. The District's winter wheat crop looks to be in good-to-excellent condition in most areas. Recent rains, however, have slowed spring tillage and planting activities.

#### **Manufacturing and Other Business Activity**

Despite the continuing struggle to find qualified workers to meet production demands, most contacts report vigorous economic activity. In some instances, though, margins are starting to be squeezed as firms remain unable to pass along input price increases to consumers. For example, a contact in the temporary staffing industry reports that because the larger firms in this industry are keeping the price charged to customers for temporary workers steady, smaller, more localized agencies are having to hold the line on their prices. This inability to raise prices is depressing margins, since fierce demand for temporary employees is driving up the wages agencies must pay workers. Besides the ongoing shortage of skilled construction workers, contacts are also reporting a scarcity of engineers, nurses and maintenance technicians. Because of the shortage of construction workers and high demand for building contractors, projects in some areas are coming in 20 to 30 percent over budget as wages are being pushed up more than

## VIII-2

had been expected. More contacts than previously have commented about experiencing increased wage pressure.

A contact in the poultry processing industry reports that production will likely be slowed moderately to allow inventories to shrink somewhat. Inventories had been building in part because of sharply lower pork prices. Several steel manufacturers have noted a huge influx of foreign steel recently, especially from Asia, which will likely drive down the price of their finished product. Similar reports have been heard from the automotive industry. A contact in the chemicals industry reports that softness in Asian markets has cut exports about 40 percent, which translates into about a 12 percent decline in total sales.

Auto parts manufacturers are increasing production because of rising demand, mostly associated with the soon-to-open Toyota plant in southern Indiana. In addition, Toyota has already announced that it will double the size of this plant and hire an extra 1,000 workers on top of the 1,300 already scheduled to work there. Elsewhere, call centers and telemarketing firms are adding workers as more companies outsource this function.

### **Real Estate and Construction**

Low mortgage rates, solid local economies and the start of spring have all combined to spur strong sales of new and existing homes, particularly in the District's metropolitan areas. Turnaround time for newly listed houses is down to just a few days in many cases, and prices are up. In the St. Louis region, for example, the median home sale price in March was up about 9 percent over one year earlier. Other regions of the District report similar gains.

Monthly residential construction permits were up in half of the District's 12 metropolitan areas in February. So far this year, permit levels in seven District metro areas are up over last year, rebounding from mild declines in 1997 relative to 1996. Construction of multifamily



### VIII-3

housing, especially apartment complexes, remains strong in some southern parts of the District. Markets for office and retail space are becoming even tighter in the major metropolitan areas, as vacancy rates continue to decline.

#### **Banking and Finance**

Total loans on the books of a sample of large District banks rose 1.9 percent between mid-February and mid-April; loans declined 0.6 percent during the same period one year ago. Commercial and industrial loans jumped 5.4 percent during the two-month period, while real estate loans increased 1.6 percent. Consumer loans fell 2.8 percent. District bankers continue to report aggressive competition for loans and difficulty gathering deposits.

#### **Agriculture and Natural Resources**

Favorable weather conditions in most areas between late March and early April allowed farmers to get ahead of schedule with their spring field preparation. Considerable rainfall across much of the District in mid-April, though, has caused many farmers to fall modestly behind schedule. In many areas, the winter wheat crop is in mostly good-to-excellent condition, except in Kentucky, where heavy rains have reportedly damaged parts of the wheat and tobacco crops. Standing water from recent rains and the early-March freeze appear not to have damaged the winter wheat crop to the degree many expected. The freeze did cause damage to the peach crop in Arkansas, Mississippi and Tennessee, although most other fruit and vegetable crops seem to have escaped relatively unharmed.

Delta cotton farmers expect to plant about 10 percent fewer acres this spring, in part because the prices of cotton and cottonseed meal have fallen to their lowest levels in about three years. Neither the current work stoppage of some towboat operators, nor the recent high river levels along the Mississippi River near St. Louis, have significantly hampered barge traffic.

## **NINTH DISTRICT--MINNEAPOLIS**

The Ninth District shows little change from earlier in the year. The economy is growing moderately in most urban areas and strongly in some. But increasing weakness in farming and other natural resource sectors is casting a pall over spending in rural areas, particularly in Montana, North Dakota and South Dakota.

Urban economic activity shows little change from the previous report. Construction appears indefatigable in most areas, despite a few anecdotal reports of softening. Manufacturers remain generally busy, though a few small layoffs were announced. General merchandise and apparel sales continue strong. Bank lending remains aggressive and there may be some erosion of underwriting standards. Labor markets continue tight and price increases for goods or services, low.

Change is most visible in the natural resource sectors. Agriculture, where farmers are suffering financial stress from recent price declines, is the most sharply negative component in the district economy. But there is also slowing in oil and gas development and mining. In addition, tourism remained weak in most areas through the first quarter of 1998.

### Construction and real estate

“Construction is very good,” comments a Billings, Mont., director, whose report would apply to nearly every other major Ninth District city. The mix varies. In the Minneapolis-St. Paul area both single-family and multifamily residential building and central city office tower construction are strong, but one mid-size commercial builder notes some softening in suburban light industrial and commercial property. Sioux Falls, S.D., and Fargo, N.D., however, display strength across all categories.

### Manufacturing and business services

Manufacturing continues to exhibit strength, though there are a few reports of slowing orders or plant closings. Missoula, Mont., lost one small plant and in Wisconsin a pizza plant and computer manufacturer laid off workers. These layoffs are all related to firm-specific circumstances and contrast with a general pattern of good orders in electronics, machined components, printing and other categories. Most publicly traded manufacturing firms continue to report good earnings growth over year-earlier levels.

### Natural resource industries

There is growing evidence of slackness in many Ninth District natural resource industries as lower commodity prices start to hurt. Drilling rig counts continue to drop as firms complete existing jobs but delay or cancel new ones. Gold mines are tightening their belts; the largest one in South Dakota and the district has laid off much of its workforce and announced a permanent restructuring to a lower level of employment and production. Lake Superior iron mines still anticipate a good season, but do not expect to pass 1997's 16-year record output. In forest products, building board production is described as steady. There reportedly is increased output of some grades of paper.

### Agriculture

"Declining market prices for all feed grains and livestock have negatively impacted all farm customers. It could become very serious," reports an eastern South Dakota banker responding to the Minneapolis Fed's survey of agricultural credit conditions. Such pessimism prevails among farmers and farm-related businesses across the district. Sharp late winter declines in hog prices and slippage in corn and soybean prices spread the financial problems already besetting wheat farmers to the rest of the district. Northeastern North Dakota and northwestern Minnesota continue to face the most severe situation due to plant disease problems that have persisted over several years. There the number of farm auctions is reportedly the highest since the mid-1980s. Bankers note most liquidations are voluntary, with operators getting out while they still have positive net worth.

The only brightness in farming seems to be in Wisconsin, where recent milk prices are higher than in late 1997. And concerns about reservoir levels and soil moisture in Montana and western North Dakota have been alleviated by late winter snows and rain in April.

### Banking

As reported previously, loan pricing competition between banks remains intense and may be leading to some slippage in underwriting standards. Pricing at the prime rate "used to be, but is no longer, reserved for the best customers," remarked one source. Despite continued strong construction statistics, in April a few banking sources report a slowing in construction loan growth in urban areas where such activity has been high.

### Consumer spending and tourism

“We have plenty of traffic and pretty good sales,” says a North Dakota mall manager. South Dakota revenue officials reported gross sales in that state in February up 10 percent from a year earlier and noted particular strength in sporting goods and home furnishings. Retailers in Minnesota and Wisconsin urban areas also report good to strong sales of apparel and general merchandise. However, towns in rural regions, particularly the Dakotas and Montana, note that low farm cash flows are biting into sales.

Vehicle sales remain sluggish in Montana and the Dakotas, as they generally were through the first quarter. Minnesota and Wisconsin dealers describe sales as so-so. “I thought we would get more help from low gas prices,” says one dealers’ association representative.

“Tourism plunges in Flathead Valley,” was the headline for a Montana newspaper article about the effects of the mild winter on ski resorts in that area. Overall, winter recreation businesses had a disappointing season, but owners are generally optimistic about the spring and summer, citing warm weather for early outdoor activities and low gas prices as favorable factors.

### Employment, wages and prices

Unemployment rates remain very low in most areas and employment numbers strong. One labor market official notes that the unusually warm winter led to much lower than usual seasonal employment fluctuations.

Employers continue to report difficulty in hiring qualified workers, but a few sources report some easing from mid-winter in a still-strained market. One small computer service firm noted that it had three times as many applicants for an advertised position as it had for an identical one nine months ago. “The century date hiring frenzy is over,” he reports, “Companies either have the people they need, or they are not going to do anything.” One St. Paul, Minn., fast food franchisee also reports easier hiring than throughout 1997.

Gasoline and other petroleum products remain low in price, about 10 percent below year-earlier levels. Prices of energy-related fertilizers such as anhydrous ammonia are below 1997 planting season levels. Manufacturers report little or no increases in the prices of intermediate goods or other inputs; some who source components in Asia report decreases. Prices also seem dormant at the consumer level where lower pork prices in late winter and spring are helping hold down grocery bills. Imported apparel prices reportedly also are trending slightly downward.

TENTH DISTRICT - KANSAS CITY

**Overview.** The district economy continued to grow moderately last month. Retail sales were robust, construction activity improved further, and manufacturing activity remained fairly strong. The only sign of weakness was a continuing decline in energy activity. In the farm economy, the winter wheat crop was in good condition and feedlots were operating at or near full capacity. Labor markets remained quite tight in much of the district, with continued evidence of moderate wage pressures. Prices generally held steady at the retail level and for construction materials. Price changes were mixed for manufacturing materials, with slight increases for some materials and declines for others.

**Retail Sales.** Retailers reported robust sales last month, strongly above year-ago levels. All respondents expect sales to be steady over the next three months. Most retailers were satisfied with current stocks and plan no major changes in the next several months beyond seasonal variations. Automobile dealers reported mixed results last month, with overall sales moderately lower than a year ago. Sales of sport utility vehicles and light trucks remained strong, while sales of passenger cars were weak. Dealers expanded inventories slightly for used and some new model cars and reported mixed feeling with respect to current stock levels. Respondents expected to increase inventories to match seasonally stronger sales in the coming months.

**Manufacturing.** Manufacturing plants operated at high levels of capacity last month as activity continued to expand. Purchasing managers reported some difficulties obtaining materials such as steel and engine parts. There were also reports of modest increases in lead times. All respondents have been trimming inventories and plan further reductions in the near

future.

**Housing.** Builders reported housing starts were up slightly last month and were moderately above levels of a year ago. Builders anticipate additional gains in construction activity in the coming months due to seasonal factors and favorable economic fundamentals. Sales of new homes edged up last month and were slightly above year-ago levels. Inventories of unsold new homes remain at moderate, comfortable levels. Most building materials were readily available and delivery times were normal. Mortgage lenders say demand flattened last month, with refinancing dominating the activities. A seasonal increase in mortgage demand is expected in coming months.

**Banking.** Bankers reported that loans and deposits both increased somewhat last month, leaving loan-deposit ratios unchanged. Home mortgage loans, home equity loans, commercial and industrial loans, and agricultural loans all rose, while consumer loans fell. Increases in demand deposits, NOW accounts, and money market market deposit accounts offset a decline in large CDs.

All respondent banks left their prime lending rates unchanged last month and almost all expect to hold rates steady in the near term. Most banks held their consumer lending rates constant and anticipate no future changes. Lending standards were generally unchanged.

**Energy.** District energy activity continued to decline last month, as energy prices were mixed. Natural gas prices improved slightly, while crude oil prices fell to their lowest levels in four years. The district rig count was down for the third consecutive month, falling 12.6 percent in March to a level 13.4 percent lower than a year ago.

**Agriculture.** The district's winter wheat crop is in good condition. Planting of spring

crops may be delayed by several weeks due to wet conditions across the district. Producers are beginning to modify slightly their crop mix and plant more corn or other alternative crops instead of wheat. District feedlots are at or near full capacity. Cattle marketings are staying current, while placements of cattle into feedlots are expected to subside later in the summer. Overall, despite recent losses, cattle producers are optimistic about the future as they expect prices to increase this summer. Low hog prices have led many small producers to liquidate their herds. The larger, contract-oriented hog operations have been hindered more by state regulations and environmental concerns than by poor market prices.

**Wages and Prices.** Labor markets remained quite tight last month in much of the district, with continued, but not increasing, evidence of moderate wage pressures. Manufacturers continued to report problems hiring skilled and line workers, while retailers were unable to fill all entry-level positions. Stronger than expected construction activity made it harder for builders to hire additional workers, especially framers and tradesmen. Despite tight labor markets, firms reported that wage pressures are moderate and do not appear to be getting worse. Some firms are designing separate salary and benefit packages for especially scarce skilled workers, such as information technology employees, while others have increased overtime. Retailers reported that prices were generally unchanged from last month. Prices edged up for some manufacturing materials, partially due to higher transportation costs. Prices edged down for others, such as aluminum, due to lower demand from Asia. Prices of construction materials held steady. Retailers expect no major price changes in the coming months.

## ELEVENTH DISTRICT--DALLAS

In March and early April, Eleventh District economic activity grew at a slightly slower pace than in January and February. Most contacts remained optimistic about the outlook for economic growth, although some expressed increased caution about their forecast over the next few months. Demand continued to increase for business service firms, and retailers reported good sales. Financial service contacts reported stable loan demand. Construction activity continued to strengthen, boosted by strong commercial and home building and “hectic” real estate activity. Manufacturing activity grew at a slower pace than reported in the last beige book, mostly due to weaker sales to Asia. Energy activity was softer, with a strong shift away from oil-directed drilling. Agricultural producers continued to report favorable conditions.

**Prices.** Price changes were mixed over the last six weeks, with lower prices for most energy products, electronics, chemicals and aluminum but higher prices for some construction-related products, real estate and most services. Business service firms said fees were up “across-the-board.” Land prices continued to increase, up 15 percent over last year’s level in some markets. Office rents were rising, although at a slower rate. Prices for telecommunications equipment were down, and prices for memory chips were “falling like a rock.” Prices were lower for oil, heating oil and gasoline, but remained firm for natural gas. Reduced demand from Asia and falling oil prices are both pulling down prices for a number of chemicals products.

Labor markets remained tight in many industries and for many types of workers, although wage increases remained mostly limited to the service sector. More employers are using training programs, so they can hire workers who previously were considered unqualified to meet their labor needs. Contacts in the service sector said a lack of workers has limited businesses’ ability to meet increasing demand.



**Manufacturing.** Manufacturing activity grew at a slower pace than reported in the last beige book. Demand for apparel, food, paper products, and construction-related materials continued to increase, but demand for some electronics, chemicals and refining was lower. Demand for cement was so strong over the winter that the industry began allotting distributions at the beginning of April and expects to continue throughout the summer. Activity continued to be brisk for some electronics and telecommunications firms, although Asian demand for most semiconductors and for products that contain semiconductors has led to excess inventories for some products. While unit sales continued to increase for U.S. consumption, falling prices led to a drop in revenues for some producers, depending on the magnitude of their Asian sales. Asian demand for chemicals has declined sharply and the prevailing price levels in Asia are unattractive to American producers. Chemical producers reported that, even if a deal can be struck, trade financing is difficult. Domestic demand for chemicals has remained extremely strong, but has not been enough to prevent a deterioration in prices for a wide range of products. A warm winter built up large inventories at refineries, and profits were reported to be very weak, down 20 percent to 30 percent compared to last year at this time. However, refiners have shifted focus to the gasoline market, and a potentially strong summer driving season has boosted prices and stabilized margins.

**Services.** Demand continued to increase for business service firms, such as temporary staffing, accounting, consulting and legal. Despite healthy demand, however, several contacts reported some hesitancy about future business conditions. Their outlook remained optimistic, but respondents were more conservative in their planning than they had been in recent months. Air freight, trucking and rail firms reported an increase in cargo volume. Contacts said there are signs that the rail congestion is starting to ease.

**Retail Sales.** Sales continued to be good and stronger than expected for a number of retailers. Selling prices were mostly unchanged, with little change in costs. Some contacts

reported lower prices for goods coming from Asia. Contacts are optimistic that sales growth will remain good, partly boosted by further reductions in prices for goods coming from Asia in the third and fourth quarters. Auto sales continued to increase in March.

**Financial Services.** Loan demand was unchanged, with no reports of declining credit quality over the last six weeks, although contacts believe standards are below this time last year. Respondents were upbeat about current conditions, expecting no major changes in profits or loan demand in the near future. Several respondents said that they do not expect much change in their business as a result of the recently announced merger of Bank of America and NationsBank.

**Construction and Real Estate.** Construction activity continued to strengthen in March and early April, boosted by strong commercial and home building and “hectic” real estate activity. Absorption of office space remained strong and occupancy rates were rising, although contacts expect occupancy rates to stabilize when new construction comes on line over the next year. Despite substantial new construction, apartment occupancy rates have been holding steady, but are expected to decline slightly as new multifamily construction is completed. Some contacts expressed concern about multifamily overbuilding, particularly in Dallas.

**Energy.** Service companies are reporting a softer market for drilling activity and a strong shift away from oil-directed drilling. U.S. crude inventories are 6.3 percent higher than this time last year and are still rising. Producers are reported to be shutting in some oil wells. Natural gas drilling remains very good however, and contacts say the industry is still very healthy, just less frantic than late last year. Several large oil producers have announced cuts in their capital budgets for the coming year. Still, pricing for energy services remains “good,” order books are still “strong,” and several contacts say they’re looking to hire good machinists.

**Agriculture.** Dry, sunny weather allowed field activities to move ahead in most areas. There were reports of drying topsoil, and producers say it’s time for the rains to start. Livestock conditions remained good. Ranges and pastures continued to “green up” despite dry conditions.

TWELFTH DISTRICT — SAN FRANCISCO

Summary

The Twelfth District economy grew at a strong pace in the most recent survey period, although reports indicate moderate restraining effects from East Asian economic developments. Consumer demand for retail products expanded at a solid pace, and sales of business and consumer services were brisk. Most manufacturers continued to operate at or near capacity, despite noticeable declines in exports to East Asia in several sectors. Construction activity and real estate markets remained vibrant, particularly in California. Banking conditions were very healthy. Upward price pressure increased noticeably for some services but remained minimal for manufactured goods.

Business Sentiment

Respondents expect a slower but still solid performance by the national economy and their respective regional economies. Of those surveyed, 60 percent expect national GDP to grow at its long-run trend rate and unemployment to remain stable during the next year. Just over half also expect inflation to remain stable, although the percentage expecting higher inflation has increased from 17 to 30 percent since the beginning of the year. Respondents' expectations for their regional economies remain very positive, although this outlook is tempered somewhat by an ongoing rise in the percentage expecting reductions in net exports from their regions.

Retail Trade and Services

Reports on retail sales were mixed but positive overall in the recent survey period. The

reports were strongest for California, where respondents noted solid sales increases for most product categories. Throughout the District, sales were particularly strong for furniture and fixtures that often accompany home purchases and improvements. Automobile sales reportedly were weak overall, although several responses from Oregon suggest improvement in March over the preceding two months. Sales of soft goods such as clothing reportedly were held down by bad weather in many areas.

Sales of business and consumer services continued at a brisk pace, with particularly strong reports for media and communications services. Advertising sales grew rapidly in Oregon, with double-digit revenue increases reported for radio and television companies, and local providers of cable television saw strong demand. Southern California's hotel and tourist sector posted very healthy sales. Few supply constraints were reported among service providers. However, respondents noted capacity constraints for truck and rail transportation in some areas, and a buildup of containers occurred at the Port of Los Angeles, due to a growing excess of imports over exports. In addition, providers of health services faced rising cost pressures.

### Manufacturing

District manufacturing expanded further in the most recent survey period, despite noticeably reduced exports in some sectors. Machine tool orders and sales remained very strong—double their 1997 levels for some products, according to one respondent—despite declines in East Asian exports. Boeing is producing commercial aircraft at full capacity, despite growing order delays by East Asian airlines. Demand for District wood products was kept high by strong housing starts, and pulp and paper orders rose despite a jump in paper imports. In

contrast, respondents reported employment cutbacks by a major maker of athletic equipment and a slowdown in high-tech equipment sales and employment growth, both associated with weak East Asian demand. Sales prices generally remained flat for both durable and nondurable items, with several respondents noting the restraining effect of low prices for imports from East Asia.

#### Agriculture and Resource-related Industries

Early season agricultural conditions were mixed. Inventories were higher than normal for many crops, due in large part to reduced exports to East Asia. One respondent reported that wheat prices are at their lowest level in 4½ years; livestock sales and prices also have been weak. In California, heavy winter rains generated ample water supply but delayed the planting of some crops, such as cotton. The heavy rains may reduce yields for various California crops later this year.

#### Real Estate and Construction

District real estate markets and construction activity remained vibrant in the recent survey period. Residential real estate sales and prices continued to grow rapidly throughout California, and commercial and industrial vacancy rates fell further in the San Francisco Bay Area. Despite reports of slower increases in home prices in several states besides California, low mortgage rates kept home purchases and construction near or above 1997 levels. In Alaska, both residential and nonresidential construction picked up recently; the latter was bolstered by oil industry development and highway construction projects.

**Financial Institutions**

Banks in most areas reported strong loan demand, healthy earnings, and readily available credit. The strongest growth reportedly occurred for real estate and business loans, with slower growth in consumer loans. Competition by banks for both loans and deposits remained stiff, and loan rates in general have been favorable to borrowers.