



**March 5, 2003**

## Summary

[Skip to content](#)

### Summary

#### Districts

[Boston](#)

[New York](#)

[Philadelphia](#)

[Cleveland](#)

[Richmond](#)

[Atlanta](#)

[Chicago](#)

[St. Louis](#)

[Minneapolis](#)

[Kansas City](#)

[Dallas](#)

[San](#)

[Francisco](#)

[Full report](#)

Prepared at the Federal Reserve Bank of Chicago based on information collected before February 24, 2003. This document summarizes comments received from businesses and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Reports from the twelve Federal Reserve Districts generally suggested that growth in economic activity remained subdued in January and February. Only a few Districts reported any notable changes from the last Beige Book. In particular, Richmond indicated that economic activity "grew modestly" and Kansas City noted "some signs of strengthening;" by contrast, New York said that the regional economy had "generally weakened." Many reports indicated that geopolitical and economic uncertainties were constraining consumer and business spending and tempering near-term expectations.

Consumer spending remained weak, on balance, with a few Districts noting a little improvement and others indicating a slight deterioration. Business spending was very soft, with little change in capital spending or hiring plans. Nearly all Districts indicated that real estate and construction activities were mixed, with strength on the residential side and weakness on the nonresidential side. Most Districts still described manufacturing activity as weak or lackluster, although half of the reports noted at least some degree of improvement. Refinancing activity continued to drive growth in household loans, while business loan demand remained weak. Contacts in most Districts expressed concern over rising energy and insurance costs, but noted that businesses had difficulty passing along much, if any, of the cost increases to their customers. The agricultural sector continued to be affected by poor weather in many Districts. Mining and energy extraction activity picked up, but energy production was limited by supply problems and some shortages of skilled labor.

### Consumer Spending and Tourism

Overall consumer spending remained weak during January and February. Retail sales were generally flat throughout much of the country in January. Boston, Chicago, and Kansas City reported some signs of improvement during February, but severe winter weather over the Presidents Day weekend hampered shopping in the New York, Philadelphia, and Richmond Districts. Apparel sales were mostly weak, although discounting helped move merchandise in some areas. Reports on home furnishings were mixed. Valentine's Day merchandise sold well in a few Districts, and terrorism fears boosted the sales of duct tape, plastic, and other hardware goods in some regions. Retail inventories were generally low and in line with both current sales and merchants' conservative near-term expectations. New light-vehicle sales were down from year-end 2002 levels; new vehicle inventories were high for some product lines, and incentives remained elevated. Tourism and travel reports were mostly favorable. Richmond said that tourist activity strengthened. Atlanta reported a gradual improvement in overall tourism and continued strength in cruise activity through Florida ports. Kansas City

noted that traffic to Rocky Mountain ski resorts remained solid. San Francisco reported that domestic and international travel to Hawaii improved, but was below expectations.

### **Business Spending**

Business spending remained very soft, as geopolitical concerns and uncertainty over the strength of demand continued to constrain spending and hiring plans. Capital expenditures remained sluggish, with most Districts noting little change in recent months. Cleveland and Atlanta noted particular weakness in manufacturers' current capital outlays. Boston and Chicago reported that information technology spending was weak, with Boston noting further softening, particularly for telecom-related software and services. By contrast, Dallas indicated a slight improvement in information technology sales, with one contact noting an increase in orders for replacement hardware such as routers, computers, and monitors. While businesses in much of the country remained cautious about their plans for capital spending in coming months, a survey of Philadelphia District manufacturers indicated that about 25 percent of respondents planned to increase outlays while only 10 percent planned decreases. Reports of demand for legal and accounting services were mixed, while three Districts indicated some softening in advertising.

Most Districts reported that businesses were still very cautious about hiring permanent workers, though Cleveland and Atlanta noted a pickup in the use of overtime and part-time employees. Nearly half of the District reports suggested that manufacturing industries were reducing their payrolls, and two said that retailers were downsizing as well. State fiscal woes were cited as contributing to layoffs in the Minneapolis and Kansas City regions. Staffing services firms generally continued to report soft demand. A large employment agency in New York noted that hiring for midlevel office jobs had been on the rise late in 2002, but had since dropped off. However, Dallas reported improved demand for temporary workers in administrative, light industrial, and professional and technical positions, and Richmond saw scattered increases in manufacturing.

### **Construction and Real Estate**

Nearly all Districts indicated that real estate and construction activities remained mixed, with strength on the residential side and weakness on the nonresidential side. New and existing home sales remained strong in nearly all Districts, with only Dallas reporting that activity was soft. Housing demand generally appeared to be strongest for low- and moderate-priced units. Demand for higher-priced homes remained softer, although Richmond and Chicago noted slight improvement in some areas. None of the Districts reported a general improvement in commercial real estate markets, and three suggested slight deterioration. Most regions said that net new demand for office space remained very weak. Vacancy rates continued to rise somewhat and downward pressure on rents persisted. Philadelphia and Richmond indicated that office-leasing activity picked up as existing tenants renegotiated with landlords for lower rents and/or concessions. Boston also reported an increase in leasing activity, largely due to consolidations. Cleveland noted that state and local fiscal difficulties were having an impact on public construction projects, and St. Louis reported that several announced hospital, church, and college projects have been delayed due to economic uncertainty. Most reports suggested that there were few, if any, expectations of a near-term improvement in commercial real estate and building activities. Cleveland, however, noted an increase in demand for architects' services, which contacts suggested could be a precursor to increased commercial building activity.

### **Manufacturing**

Manufacturing activity generally remained weak nationwide, but half of the reports noted at least some degree of improvement. Richmond indicated that "activity strengthened" as

"shipments and new orders rose sharply," and Kansas City said that "activity improved slightly." Only St. Louis suggested a slight deterioration, with increasing reports of weak sales. Light-vehicle production nationwide was flat-to-down from a year earlier, and adverse weather in mid-February led to some plant shutdowns in the Cleveland District. Reports from vehicle parts suppliers were mixed. Firms in the St. Louis District reported diminishing orders for automobile parts, but Atlanta suggested that businesses supplying parts to the new vehicle assembly plants in the region were outperforming other manufacturers. Demand for some high-tech goods was said to be improving. Conditions in the semiconductor industry appeared to improve in the Boston and San Francisco Districts. Dallas added that there was an increase in the demand for some high-tech consumer goods. Apparel makers in two Districts reported better conditions. Manufacturers' inventories of finished goods and raw materials were generally lean, as contacts across the country expressed high uncertainty about the near-term outlook.

### **Banking and Finance**

Lending activity was mixed by market segment. Most Districts indicated that growth in household lending continued to be driven by very strong residential mortgage demand. Refinancing was again spurred by lower fixed-rate mortgage interest rates; one contact in the Richmond region indicated that every 1/8 percentage point to 1/4 percentage point drop in mortgage rates brings in new people. Demand for other types of consumer loans was generally flat-to-down. A few Districts noted slight increases in delinquencies and defaults on some household loans, while one reported slight improvements in loan quality. Standards for household loans were largely unchanged. However, bankers in the Dallas region said that the quality of loan applicants was lower, and Philadelphia suggested that marginal borrowers were finding it more difficult to service their debts.

Business lending activity remained weak in most of the nation, as many bankers suggested that decisionmakers were reluctant to borrow in the face of continued uncertainty surrounding geopolitical and economic conditions. Atlanta reported that the bulk of commercial lending activity was driven by businesses refinancing existing loans. However, bankers in the Philadelphia, Richmond, and Chicago Districts saw slight increases in some commercial lending segments. Bankers in one-third of the Districts reportedly tightened standards on some business loans. There were few indications that overall quality on commercial loans had changed in recent weeks, although bankers in the Philadelphia District noted "some slippage in credit quality," while Chicago bankers suggested modest improvement.

### **Prices and Employment Costs**

A combination of geopolitical uncertainties, very harsh winter weather in the eastern half of the country, and lean inventories led to significantly higher energy costs in January and February. These cost increases were having wide-ranging economic impacts throughout the country--higher raw materials costs for manufacturers, increases in transportation and shipping costs, fuel surcharges, and even job cuts in manufacturing in the Atlanta region. Dallas reported that "gasoline prices at the pump reached the highest February level on record," while one Chicago contact suggested that small freight haulers may be driven into bankruptcy by very high diesel fuel prices.

Upward wage pressures remained generally subdued in nearly all Districts, but some nonwage costs continued to rise, particularly for health and other insurance. Minneapolis reported that two large unions had agreed to pay a portion of their health insurance premiums in order to get 3.75 percent pay raises in each of the next two years.

Few firms said they were able to pass along much, if any, of these cost increases to their customers. Competition from both domestic and foreign producers helped keep final goods prices in check. Most Districts suggested that price pressures at the retail level remained largely subdued, with many merchants still resorting to heavy discounts to move merchandise.

### **Agriculture and Natural Resources**

Agricultural activity remained mixed across Districts. San Francisco reported that the decline in the value of the dollar gave a boost to agricultural exports. Farmland values in the Chicago District posted the largest year-over-year gain since 1997. Higher prices for many agricultural commodities boosted planting, notably for winter wheat in part of the Minneapolis District. Cotton yields hit a record in Texas, and cotton plantings in the mid-South are expected to be higher this year. Increased livestock prices have eased profitability concerns, though reduced herds due to drought could lead to a smaller calf crop this year. The drought reportedly affected agriculture in nearly half the Districts, increasing the need for timely precipitation in the spring. On the other hand, Atlanta and Dallas reported favorable moisture levels. Cold weather had a negative impact on agricultural activity, stressing livestock in several regions, slowing field work in the Richmond District, and causing moderate frost damage in portions of the Atlanta District. Low prices continued to affect the dairy industry, even the most efficient producers. Financial stress has increased in the Chicago District, but few significant farm loan portfolio problems were reported by bankers elsewhere.

Due to higher prices, activity in the energy sector increased, though not evenly. Kansas City and San Francisco reported strong oil and natural gas activity. However, Dallas noted only a mild increase and Minneapolis said energy activity was mixed. Current and potential disruptions to crude oil supplies continued to hamper refining, especially in the Dallas District. Dallas also reported that activity was held down by industry perceptions that the oil price increase was temporary and by a shortage of trained workers. Higher metal prices helped spur mining activity in the Minneapolis District.

 [Return to top](#)

[Boston](#) 

---

[Home](#) | [Monetary Policy](#) | [2003 calendar](#)

[Accessibility](#) | [Contact Us](#)

**Last update: March 5, 2003**