



April 23, 2003

Summary

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Summary

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Prepared at the Federal Reserve Bank of Cleveland and based on information collected before April 15, 2003. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of the Federal Reserve officials.

Reports from the twelve Federal Reserve Districts suggested that the pace of economic activity continued to be lackluster during March and the first two weeks of April. Although Richmond observed continued modest growth, reports from Boston, Cleveland, Atlanta, St. Louis, Dallas, and San Francisco characterized economic conditions as still mixed or soft. Since the last Beige Book, New York, Philadelphia, Chicago, Minneapolis, and Kansas City noted that the recent pace of economic activity had been slower than reported earlier. The onset of the war with Iraq appeared to have some effect on sales and spending, although it is too early to ascertain the full effect of the war on both consumer and business confidence.

Reports on consumer spending were generally weak in March, but respondents attributed part of the weakness to poor weather and the onset of war. Contacts also cautioned that year-over-year comparisons of sales for March were difficult because Easter fell in late March last year but falls in the third week of April this year. Optimism remained that the retail environment would improve within the next six months.

Most Districts continued to report weakness in manufacturing, although some pockets of growth were noted in most of the reports. Businesses continued to report a cautious attitude toward spending, and commercial real estate was reported to still be in a slump. In contrast, homebuilding activity remained strong across all Districts. Mortgage lending, buoyed by refinancing activity, remained strong, and a few Districts noted some improvement in commercial loan demand. Agriculture conditions generally improved as rain and snow eased drought conditions in several Districts. Labor markets remained soft, but some Districts noted moderating layoffs or improvements in demand for temporary labor.

Consumer Spending

Overall consumer spending remained subdued in March. Although some of the weakness is attributable to Easter falling later this year, the onset of military action in Iraq and poor weather also had negative effects on March sales figures in most Districts. Atlanta and San Francisco, however, noted that March sales were "near year-ago levels" and "largely stable on net" respectively.

Although retail sales have been sluggish, most Districts indicated that their retailers were not concerned about inventory levels. Cleveland, Atlanta, and Chicago reported heavy discounting or increased promotional environments. The outlook among retailers in Boston,

Philadelphia, Cleveland, and St. Louis suggested that at least a slight improvement in conditions would occur in these Districts before the close of 2003.

Reports regarding automobile sales in March were mixed: The Cleveland, Richmond, Chicago, St. Louis, Dallas, and San Francisco auto markets saw some rebound in March after slowing in February. Philadelphia, Atlanta, Minneapolis, and Kansas City, on the other hand, reported faltering auto sales in March, although Minneapolis and Kansas City saw some recovery in auto sales in early April in response to manufacturers' incentives.

Travel and tourism spending strengthened in the Richmond, Minneapolis, and Kansas City Districts, but slowed in the Chicago and San Francisco regions. San Francisco noted that international travel had weakened, due in part to the SARS outbreak in Asia. Dallas observed a decline in air travel due to the onset of the war and the SARS outbreak. Atlanta reported mixed conditions: Although international tourism fell in the District, the decline was offset by a successful spring break season.

Manufacturing

Nine of the twelve Districts reported slowing activity in manufacturing. New York and Dallas reported mixed conditions, and Cleveland reported flat or slightly improving conditions. In general, contacts reported lower levels of production, sales, and new orders.

Still, pockets of improvement in the industry were noted by more than half the Districts in this report. In Boston, companies producing hardware, semiconductors, and machine tools reported an increase in business activity, as did nondurable goods producers in the Cleveland District. Atlanta's defense-related manufacturers reported improving conditions, and the hiring of temporary workers in manufacturing rose slightly. In the St. Louis District, some auto parts producers were planning to expand their facilities. The energy-related sector in Dallas observed strong growth since the last report. Despite declining conditions at the time of the survey, manufacturers in the New York and Philadelphia Districts seemed optimistic that activity would improve somewhat within the next six months.

Construction and Real Estate

Residential activity remained strong while commercial building activity continued to be characterized as sluggish. Most Districts reported high levels of residential building activity and sales. Still, some homebuilders suggested that there was a slight softening in their markets: In the Boston District, sales were being limited by supply, and in New York and Atlanta, demand for higher-end homes had eased.

On the commercial side, weakness in construction activity persisted as none of the Districts reported solid improvements in the industry. Office vacancy rates continued to climb in the New York, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco Districts, and some Districts reported falling rental prices.

Banking and Finance

Home lending activity, fueled mainly by refinancing, remained strong across all Districts, but the Chicago District noted some slowing in mortgage activity. Consumer and commercial lending was generally flat, although some bankers in the Cleveland, Chicago, St. Louis, and San Francisco Districts saw slight increases in commercial loan demand. Several Districts reported growth in deposits, but New York reported a decline. Richmond noted a decline in consumer credit demand as clients were paying down their debts.

Agriculture

Recent precipitation has helped to allay fears of continued drought in the Richmond, Chicago, Kansas City, and Dallas Districts. Farmers in the Kansas City District expected to strengthen their balance sheets if relief from drought conditions continues. Various Districts reported stable or rising commodity prices for items such as sugar cane, vegetables, cattle, cotton, tree fruits, and nuts, but prices for milk remained low. The Atlanta and Chicago Districts reported that higher energy prices have resulted in higher market prices for farming inputs, but in Chicago it did not appear to have a large effect because most farmers had negotiated contracts when input prices were lower.

Labor Markets

Most District reports indicated continued weakness in labor markets, as several Districts noted substantial layoffs in March and early April. Still, some hints of improvement had emerged: Both Cleveland and Kansas City reported fewer plans for staff reductions, while New York, Atlanta, and Dallas reported stronger demand for temporary workers. Several Districts reported a lack of upward pressure on wages, but firms continued to note substantial increases in the costs of health care and insurance.

Prices

Many Districts reported price pressures in specific segments of their economies, and no reports of widespread inflationary pressures were mentioned. In general, energy-related inputs in manufacturing saw substantial price increases in March and early April, but most manufacturers held the prices of their goods steady. Retailers noted heavy discounting and promotions, with notable drops in apparel and electronics prices.

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