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

# Current Economic Conditions

by Federal Reserve District

October 2001

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

**OCTOBER 2001**

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## Summary\*

Reports from all Federal Reserve Districts indicate weak economic activity in September and the first weeks of October. In all Districts, the tragedy of September 11 was followed by a short period of sharply reduced activity. Business activity recovered quickly from some aspects of the shock, such as reduced air cargo capacity, but longer-run effects are more difficult to assess. Retail sales, other than autos, were slightly lower than before September 11, but this weakness might have already been in train. The same is true for manufacturing. Insurance premiums have increased, and security precautions are disrupting productivity.

Retail sales softened in September and early October in almost all Districts. Auto sales fell at the beginning of the period but have now rebounded following new zero-financing incentive plans. Both shipments and orders for a broad spectrum of manufactured goods, ranging from steel to semiconductors, are weak in most of the country. Construction generally slowed during the period. The softness in consumer spending, manufacturing, and construction is affecting the labor market, where layoffs and plant closings have been reported in many industries, from financial services on the East Coast to media and advertising on the West Coast to auto parts in the central states. There has been little upward pressure on either wages or prices, and, in some cases, they have actually fallen.

### **The Effect of September 11**

Retail sales followed much the same pattern throughout the country. In the week following the attack, consumer spending dropped sharply for all items except those that were likely purchased in preparation for possible additional attacks. Sales of groceries, security devices, and bottled water increased; purchases of insurance also rose. One to two weeks later, consumer buying picked up somewhat, although in most Districts it was weaker than in early September. Contacts in the Chicago District note that the weakness

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\* Prepared at the Federal Reserve Bank of Cleveland and based on information collected before October 15, 2001. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a representation of the views of Federal Reserve officials.

is the result of fundamental economic causes prevailing before the attack, higher unemployment, and falling stock prices, rather than the attack itself.

The grounding of aircraft caused some very short-run effects. For example, the transport of fresh vegetables from the West Coast to the East Coast was disrupted somewhat. The supply chain of parts to manufacturers also was interrupted but appeared to recover quickly from dislocations in air transportation, as air cargo was promptly rerouted through ground networks.

All Districts except Boston and Kansas City report sharp declines in the hotel, airline, and tourism industries. In many Districts, demand dropped sharply immediately following the attack but later rebounded partially. Some cancelled conventions have been rescheduled. In Manhattan, Broadway theaters have noted some pickup in attendance after a sharp dropoff in mid-September. However, large layoffs in the airline industry may be the result of previously observed weakness in the industry, which was then amplified by the attack. Manhattan lost roughly 7 percent of its office space in the September 11 attack, but an estimated four percent will be repaired in upcoming months. Despite the damage, however, office availability increased slightly on balance in September.

The attack is likely to have a longer-term effect on manufacturing. Aircraft orders are down sharply, causing layoffs in the aircraft and aircraft parts industries in the Boston, Kansas City, and San Francisco regions. There has been an increase in demand for security products and data storage devices produced in the Cleveland and San Francisco Districts. Boston reports a large rise in insurance demand, while Atlanta, Dallas, and San Francisco report an increase in insurance premiums. The Atlanta and Chicago Districts report a fall in business productivity due to increased security precautions.

### **Consumer Spending**

Retail sales softened in September and early October in all Districts except St. Louis, where sales were flat, and Minneapolis, where sales were considered normal, and Richmond, where sales returned to pre-attack levels. In the New York District, recent sales were well below levels of a year ago. Almost all regions reported that discount chains were doing much better than specialty stores, and luxury items did poorly. The softer sales tempered the retail sector's forecasts for the holiday season. Most

Districts report sales expectations that are both more uncertain and lower than they had been in August.

Automobile sales were much weaker during the first weeks of September, but all Districts, except Boston and New York, report a rebound in sales because of zero-percent financing options that are being offered. In most cases, sales were back to normal, except in the San Francisco and Atlanta Districts, where they were weaker than normal. Atlanta and Chicago also mention that sales of trucks were down.

### **Manufacturing**

Industrial activity was generally weak throughout the country in September and early October. The only exceptions were New York, which reports some pickup in activity, and Richmond, which reports steady activity. Most Districts mention that shipments and orders are weaker than the year before, and, indeed, than in early September. The continued weakness in manufacturing has contributed to pessimism about when orders will improve, as many Districts report that they do not expect a turnaround until 2002.

The weakness is broadly based. The industries affected by lower shipments and orders include high-tech industries, such as semiconductors in the Boston, Dallas, and San Francisco regions, as well as the more traditional heavy industries such as steel in the Chicago and Cleveland regions. In spite of robust auto sales, the auto parts industries in the Boston, Cleveland, Dallas, and St. Louis Districts all reported difficult times. The resource-based industries such as lumber reported mill closures in the regions of Atlanta, Dallas, and San Francisco. A few industries are doing well. Cement in the Dallas region, some textiles in the Richmond region, and luxury goods in Cleveland report some gains.

### **Real Estate and Construction**

Construction generally slowed during September and early October, although there were exceptions in some locations and in some types of construction. Commercial construction weakened in the Atlanta, Boston, Cleveland, Kansas City, and San Francisco regions and in the western Kentucky portion of the St. Louis region. Some commercial and industrial projects were put on hold in the Chicago, Dallas, Minneapolis, Richmond, and San Francisco Districts. Office builders were less active than in the past in the

Atlanta, Cleveland, and Richmond regions, as well as in the city of St. Louis. Commercial vacancies rose in the Atlanta, Chicago, Kansas City, and San Francisco Districts. New York, in spite of the attack, still experienced a slight up-tick in vacancies. Office building held steady in the Cleveland District.

Residential construction rose only in Philadelphia and some areas of the St. Louis region. It held steady in the Cleveland and Minneapolis Districts and fell in the Atlanta, Boston, Chicago, Dallas, Kansas City, New York, Richmond, San Francisco Districts, and some portions of the St. Louis region. In Boston, the decline followed a strong summer, so that on a year-over-year basis, construction activity was still up. In the Richmond and New York regions, the decline was seen in the construction of luxury homes. New York also reports a decline in rents in Manhattan.

### **Agriculture and Natural Resources**

Most of the year's crops have now been harvested. Corn and soybean harvests were good in the Richmond, St. Louis, and southern part of the Cleveland regions, but were below normal in the Chicago, Kansas City, and northern part of the Cleveland regions. Prices for cattle and hogs are low. Kansas City reports that the winter wheat crop is in the ground ahead of schedule. Atlanta reports a poor cotton harvest. Minneapolis and Dallas report weather-related poor crop yields, but San Francisco notes that West Coast harvests have generally been good.

Decreases in oil and natural gas prices have led to a decline of drilling activity in the Dallas and Kansas City Districts. Decreases in steel production have caused several iron ore mines to close in the Minneapolis District.

### **Financial Services and Credit**

Banks experienced greater mortgage refinancing activity in response to lower interest rates across Districts. New mortgage lending was also reported to have increased in all but four districts: Kansas City and San Francisco, where loan activity generally decreased in most categories, and Boston and Dallas. Atlanta, Cleveland, New York, Philadelphia, and St. Louis report consumer loans were down. Cleveland, Philadelphia, and St. Louis report increases in commercial lending, and Chicago, New York, Richmond, and St. Louis report decreases in these loans.

The Chicago, Cleveland, New York, and San Francisco Districts report that loan delinquencies were up, and credit standards were reportedly higher in the Atlanta, Kansas City, and New York Districts. Nonperforming loans were higher in the Philadelphia and St. Louis Districts.

### **Employment**

Many Districts report layoffs in a wide variety of jobs. Large manufacturing layoffs are reported in the Boston, Dallas, Kansas City, Chicago, Philadelphia, San Francisco, and St. Louis regions. In the service sector, hotel, tourism, and airline industries laid off people throughout the country. In addition, the Dallas, Richmond, and Philadelphia Districts saw cutbacks in the retail sector, and New York reports layoffs in the financial services industry. The West Coast's media and advertising industry also experienced large layoffs.

### **Wages and Prices**

Most Districts report little or no change in wages. Manufacturers were reducing salaries in the Boston District, and wages were down in parts of the San Francisco District. Steady wages or no wage pressure are reported in the Chicago, Kansas City, New York, and Richmond regions, as well as among temporary workers in the Minneapolis region. The Atlanta, Cleveland, and Dallas Districts report that wage pressures had subsided or were subdued. Dallas and San Francisco also report an increase in health care costs.

Most Districts report steady or declining consumer prices. Districts reporting steady retail prices included Kansas City and Richmond. San Francisco reports steady prices except for declining prices in apparel. Districts reporting lower retail prices included Atlanta, Boston, Chicago, and Dallas. The prices for manufactured goods also fell in the Chicago, Dallas, and New York regions, while they were steady in the Atlanta, Kansas City, Richmond, and San Francisco regions.

Input prices are reported as decreasing or holding steady, except in Cleveland, where they were mixed. Districts reporting price declines included Boston, Chicago, Dallas, Minneapolis, and New York. Those reporting steady prices were Atlanta, Kansas City, and San Francisco.



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FIRST DISTRICT – BOSTON

First District manufacturing and retail firms report that business activity is generally below year-earlier levels, notwithstanding some recovery at the end of September and early October from the severe slowdown that followed the terrorist attacks on September 11. Many of these contacts are anticipating, if not currently planning, employment reductions. By contrast, business at insurance companies and in New England residential real estate markets has been steadier. Most respondents express uncertainty about the outlook; few expect improvement before the second half of next year.

Retail

Most retail contacts report very large sales declines in September. During the weeks of September 10 and September 17, sales were off 20 to 30 percent from the same period last year. However, by the end of September, sales were said to have generally reverted to the patterns that prevailed before the terrorist attacks on September 11—even with or slightly below year-earlier levels. By contrast with generally sluggish consumer demand, sectors related to the housing construction market (building materials, hardware) report modest to strong growth in sales.

Most retailers report they are holding employment levels steady. However, some say they are shrinking employment through attrition; others indicate that decisions on future layoffs depend on fourth-quarter sales results. Retailers hiring replacement help report that they are able to upgrade labor quality. Prices are being discounted to move inventories, with the result that profit margins are declining.

Before September 11, the mood of retail respondents was cautious; the terrorist attacks have shifted their outlook to complete uncertainty. When pressed, most contacts are pessimistic about the fourth quarter of 2001 and unsure of what to expect in 2002. They express hope that an economic rebound will occur sometime during the second half of 2002 or early in 2003.

Manufacturing and Related Services

Some First District manufacturing contacts report that business has recovered somewhat from what they experienced immediately following the September 11 terrorist attacks. However, almost all

respondents say that sales or orders are weaker than in the period prior to September 11 and remain below year-ago levels. Contacts offer varying views on the length and depth of the downturn, but as a group they express heightened caution about 2002—especially the first half.

Manufacturers of aircraft parts and equipment say their customers are issuing stop work orders and cancellations. The ongoing weakness in air travel is leading to a grounding of older and commuter aircraft, which will cause further curtailments of production. Contacts say that the anticipated defense buildup is unlikely to result in new business this year, and they are tentative about increases next year.

Makers of capital goods other than aircraft consistently describe business as weak, and some indicate they will report losses for the third quarter. Exporters express concern about deterioration in foreign markets. One contact supplying equipment and parts to the semiconductor industry is encouraged that orders did not fall further in the third quarter, but he does not anticipate a turnaround in sales until the second half of 2002. In the area of consumer products, auto parts manufacturers say orders are down from a year ago but holding steady. One firm is seeing a reduction in sales of products connected with travel and tourism. A furniture maker is cutting production sharply because of slumping sales.

Contacts report downward pressures on selling prices as their business customers seek to negotiate more favorable terms. Pressures from automakers remain intense; one contact said that, in essence, suppliers are being asked to fund car-buying incentive programs and other auto company expenses.

Believing the economy is in recession, manufacturers are taking new steps to reduce labor and capital costs. Most are planning or at least anticipating reductions in employment. Some are reducing salaries, furloughing employees, or cutting benefits. Capital budgets have become very tight at most firms. Respondents frequently say that their company is eliminating any purchases not needed immediately or undertaking only those projects with a very short and certain payback.

### Residential Real Estate

Although contacts report slowdowns in residential real estate markets throughout the region,

many say the markets are stronger than they expected. These slowdowns follow a strong summer. For example, Massachusetts contacts report increases in sales of single-family homes of 12 and 17 percent from year-earlier in July and August. Activity remains robust in most areas, although the number of listings has increased during the past quarter and, on average, listings stay on the market longer. Some contacts consider recent slowdowns as temporary effects of the September attacks and anticipate that low interest rates, moderate prices, and increased inventory will soon attract prospective buyers. Prices continue to appreciate, although at a slower rate. Contacts emphasize that there is typically a 90- to 120-day lag between the time an offer is made and when a home sale takes place. It is therefore too soon to see the effects of September events in sales data.

#### Insurance

Most contacts in the insurance industry report that third-quarter sales and revenue were as expected. Contacts in both property-casualty and life insurance are expecting increased sales in the near term as a result of the September 11<sup>th</sup> terrorist attacks. One life insurance provider believes that people have become more aware of their families' long-term financial needs; this awareness will soon result in more policies. Contacts in property and casualty insurance have been able to raise prices on their products after a period of "suicidal" price competition. These contacts had earlier been trying to implement price increases but the terrorist attacks allowed them to increase pricing faster without much loss in retention. One respondent believes that customers are now focusing more on quality than on pricing. Contacts also mentioned other industry changes resulting from the terrorist attacks such as separate terrorism and war clauses for policies (at additional cost) and closer scrutiny of the solvency of re-insurance providers. Most contacts report steady employment levels as they focus on keeping costs flat; they indicate they have seen a marked improvement in the quality of available labor for those few positions they need to refill. Contacts say they are hesitant about starting any new capital and technology initiatives.

## SECOND DISTRICT--NEW YORK

Economic conditions in the Second District have weakened since the last report. It is unclear how much of the weakening may be attributed to the material disruptions and aftermath of the September 11 terrorist attack. The disaster's impact was particularly evident in Manhattan real estate, retail trade and tourism. Many businesses in the District are facing downward price pressures from weakening demand and lower commodity prices. Labor markets have shown signs of deteriorating since the last report. Department stores report that sales fell well below plan during the week of the attack, though they have recovered modestly in each of the past few weeks.

Home sales in and around New York City have slowed drastically since the last report, and both apartment prices and rents have fallen by an estimated 10 percent. In general, contacts note that the high end of the market has been the most affected. Contrary to initial post-attack expectations, Manhattan's office market has not tightened—availability rates at the end of September were slightly higher than a month earlier. Hotels, taxi drivers, and Broadway theaters experienced a steep falloff in business in mid-September, but activity has reportedly recovered somewhat in the weeks since. Finally, bankers again report weaker loan demand, tighter credit standards, and moderately higher delinquency rates in the latest survey, taken in early October.

**Consumer Spending**

General merchandise retailers report that sales were well below plan in September and early October, though discount and home improvement chains describe sales as close to plan. Department store sales in the region fell sharply during the week of September 11—particularly at Manhattan stores—but have recovered steadily in subsequent weeks. Still, as of early October, sales remained lower than a year ago and well below plan. For the month as a whole, sales at Manhattan stores were said to be 20-30 percent below normal, while comparable-store declines in the rest of the region ranged from 4 to 13 percent. Broad-based weakness was reported across major merchandise categories,

although some contacts note relative strength in furniture and lawn and garden supplies. Most contacts report an overhang of inventories and are responding with steep markdowns. Most major chains have scaled down Christmas-season sales expectations, to varying degrees. On average, dollar sales volume is expected to be down 1-2 percent from last year.

Discount chains, which have a very limited presence in New York City, report that sales in the region were only modestly below plan, boosted by home entertainment merchandise (DVDs, etc.) and security-related merchandise (alarms, etc). One contact notes some shift in business from weekends to weekdays and says that consumers have grown increasingly budget-conscious in recent weeks.

Major retail chains report that some stores closed for most of the day on September 11 but that all re-opened on the following day. Scattered delivery and shipping delays were reported—mostly at border crossings—but no major problems were reported. A large number of retail outlets in the World Trade Center complex were destroyed, and virtually all major stores in Lower Manhattan were closed for at least a week—a major department store and a leading electronics store remain closed indefinitely.

### **Construction and Real Estate**

Manhattan's office market was thrown into turmoil by the destruction of the World Trade Center (3 percent of Manhattan space), as well as damage to adjacent structures (another 4 percent), most of which should be habitable within 2 to 9 months. However, market conditions have not tightened as expected—availability rates at the end of September were slightly higher than a month earlier. Leasing activity has picked up dramatically, as displaced firms secure new space—mostly in Manhattan, but also in northern New Jersey and, to a lesser extent, in the outer boroughs and eastern and northern suburbs. Still, many of the displaced firms have diminished space needs. Moreover, on the supply side, firms outside the damaged area placed excess space on the market. The net result was the slight increase in Manhattan's availability rate. By early 2002, as most of the damaged properties re-open, availability rates are expected to rise even further.

Housing markets in and around New York City have clearly weakened further since the last report. A leading Manhattan rental real estate firm reports that the market has slowed significantly in recent months but notes that it is difficult to assess the impact of the terrorist attack versus cyclical forces. After accounting for increased concessions—such as a free month—Manhattan rents (north of Canal Street) appear to be averaging about 10 percent lower than a year ago. In Lower Manhattan, demand has fallen off sharply, and it is difficult to assess current market rents.

Similarly, contacts in the apartment appraisal and brokerage industries note that co-op and condo transactions ground to a halt during the week of the attack and have edged up only moderately in recent weeks, while prices have fallen by roughly 10 percent. Even prices stipulated in a number of signed contracts have been renegotiated. As in the rental market, Lower Manhattan is said to be particularly sluggish, but market conditions appear to be holding up relatively well uptown, with a few reports of multiple offers on apartments.

Homebuilders in northern New Jersey report some softening at the high end of the market. Some buyers are said to have shelved deals on construction not yet begun (pre-contract). However, one contact still notes that there remains a shortage of housing, and people that need to move are still buying, though typically with fewer amenities. Separately, a realtor in northern New Jersey reports that there were virtually no sales transacted in the three weeks following the attack, and that it is difficult to gauge price trends.

### **Other Business Activity**

A major New York City employment agency says that the local job market has slackened noticeably since the last report, with particular weakness in financial services; however, demand from law firms remains strong. Wages are said to have leveled off and are little changed from a year ago.

Tourism-related industries experienced a steep drop-off in activity in September, though there has been some improvement in early October. Manhattan hotels report that occupancy rates, which had

already been slumping for most of this year, fell 25 percent below normal in September, and many hotels have slashed room rates. New York City taxi drivers have reportedly experienced a steep drop-off in business; income was reported to have fallen by as much as 50 percent in the weeks following the terrorist attack. Broadway theaters report some rebound in attendance in October, following a dramatic falloff in mid to late September.

On a more positive note, there are some signs of stabilization in the region's manufacturing sector. New York State manufacturers report some pickup in general business conditions and new orders in September and early October, but express increased pessimism about the six-month outlook—largely reflecting concern about the residual effects of the terrorist attack. Manufacturers continue to report downward price pressures, though to a lesser extent than in the last report.

### **Financial Developments**

According to the latest survey of small to medium-sized Second District banks—conducted in early October—demand for most types of loans fell noticeably over the past two months, except in the residential mortgage category, where demand picked up moderately. Widespread increases were also reported in refinancing activity. On the supply side, banks again tightened credit standards for all types of loans except home mortgages, where standards remained stable. Virtually all respondents reported declines in both loan rates and deposit rates. Delinquency rates rose for consumer, residential mortgage and commercial loans, but were little changed for commercial mortgages.

## THIRD DISTRICT – PHILADELPHIA

Business activity in the region slowed in mid-September following the attacks in New York and Washington and picked up slowly late in the month and in early October. Manufacturers reported declines in shipments and orders in October compared with September. Retail sales have moved up after being extremely slow in mid-September, but they have been just level compared with a year ago. Auto sales also moved up, but remain below last year's pace. Bank loan volumes rose slightly in September, with gains in business and residential real estate loans, but consumer credit has been flat. Travel and tourism activity remains weak, although it has improved since mid-September.

Looking ahead, businesses in the District have mixed views, and all indicate that they face greater uncertainty than usual. Manufacturers forecast increases in orders and shipments during the next six months. Retailers, however, expect sales in the remaining months of the year to be even with or to fall below last year's results. Auto dealers also anticipate a slowdown in sales. Commercial bank credit officers expect continued slow growth in commercial and industrial lending, but they are uncertain what course consumer lending will take. They expect residential real estate lending to ease.

MANUFACTURING

Third District manufacturers reported continuing declines in activity in October. Orders and shipments were down compared with September in nearly all the major manufacturing sectors in the region, although some firms producing chemicals and plastic products reported increases in orders. Half of the manufacturing firms contacted for this report indicated that orders for their products fell following the September terrorist attacks, around one-third reported no changes in order flows after the attacks, and just over one in 10 said their orders increased. In general, the region's manufacturers reduced employment and working hours in October compared with September, and they continued to trim inventories.

Local manufacturers' forecasts have been virtually unchanged, although several firms noted that some of their usual customers have reduced or postponed orders, and they are uncertain when regular buying will resume. Nevertheless, more than half of the



firms surveyed in early October forecast increases in orders and shipments during the next six months. They expect business to improve gradually, with momentum building through next year. Capital spending plans at area firms call for slight increases, on balance, during the next six months.

### RETAIL

Third District retailers reported improved sales in the past few weeks, but most indicated that the recent sales pace remains below the rate prior to the September terrorist attacks. Overall, general merchandise sales in the region in early October were flat compared with the same period a year ago. Discount stores were achieving some gains, but sales at department and specialty stores were down. Sales of luxury goods were off more than sales of basic goods. Some merchants reported increased sales of home furnishings, but appliance and furniture sales in general were not strong. Apparel sales appeared to be weaker than many retailers had expected. Stores have been expanding price reductions in an effort to boost sales, but many merchants feel consumer confidence is too fragile to support a solid gain in sales regardless of markdowns.

Local store executives have reduced their forecasts for the year-end shopping season, leading some to predict a year-over-year decline. Although most retailers indicated that their current inventory levels were not high, some stores have cancelled orders or resold on-order goods to other stores. As revenues continue to track below plan, stores have laid off workers.

Overall sales of cars and light trucks picked up in the region in late September and early October, but remain well below year-ago levels. Manufacturers' incentives have boosted customer traffic, but sales have not risen commensurately, and inventories have been rising. Dealers expect some reduction in the sales rate as the year closes, and they have cut back orders to manufacturers.

### FINANCE

Lending at major Third District banks rose slightly in October. There were small gains in business loans and residential real estate loans. Residential real estate lending increased for both refinancings and purchase mortgages. Credit card lending has slipped,

as has consumer installment lending generally. Banks have experienced some increases in nonperforming loans, on balance, but most of the bankers contacted for this report said the increases have been slight.

Commercial bankers in the Third District expect business lending to remain on a positive trend, although they anticipate only slight gains. Several banks indicated they were restricting lending in sectors where activity has weakened, such as travel related businesses, commercial printing, and retailing. Bankers in the region do not expect lending for home purchases or residential real estate development to continue at the current pace, but they see no signs yet that a sharp drop is imminent. Bankers expect consumer lending to track retail sales, but they say the outlook for consumption spending in the region is uncertain.

Banks in the Third District reported that their net interest margins have become very tight as market interest rates have eased. Several indicated that they cannot reduce deposit rates further without risk of losing balances. Bankers said the need to maintain deposit rates limits their ability to reduce lending rates.

#### TRANSPORTATION AND TRAVEL

Travel and tourism activity in the Third District has increased slightly in the past few weeks, but remains below the year-ago level as well as below the level prior to the terrorist attacks. Lodging and air transport companies have laid off workers in the region. Port activity has increased slightly as both freighters and cruise ships have been diverted from New York. This source of business is expected to last through the winter, but firms involved in port activity say their overall business is not likely to rise if the U.S. and foreign economies slow down.

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### FOURTH DISTRICT – CLEVELAND

#### **General Business Conditions**

The general downward drift of the Fourth District economy continued in late August and September. Most industries experienced a temporary negative shock following the terrorist attacks of September 11, but production cuts in several industries will likely be more persistent, namely, manufacturing, retail, and travel and tourism. Most contacts in these industries revised their profit expectations downward for the year, and there seems to be little optimism that business activity in these areas will recover in the near future.

Conditions in the District's labor market were mixed. A number of labor unions reported some improvement in compensation, but job security is a serious concern for most union members. In general, wage growth remains subdued, but several contacts noted accelerating benefits, especially for health care. Temporary workers are in high demand in the southern part of the District, while conditions in the northern part are reportedly less favorable. Since September 11, large layoffs have been announced in the airline, aerospace, hotel, and restaurant industries. Some manufacturing contacts warned that more substantial layoffs may be necessary if unfavorable economic conditions persist past the end of the year.

#### **Manufacturing**

Contraction in the manufacturing sector continues, but conditions vary widely by type of manufacturer. Suppliers to automakers reported significant drop-offs in new orders and production, as did steel makers, aerospace equipment producers, and printing and publishing firms. Manufacturers of niche products related to safety and security noted that business has increased substantially since September 11. Some producers of luxury goods, such as boats, reported that business remains surprisingly strong in the wake the attacks. Most manufacturing contacts have sharply revised their fourth quarter sales estimates downward since September 11, and some are marking down 2002 sales projections as well.

#### **Retail Sales**

Contacts reported that retail sales for the first ten days of September were sluggish. Retailers do not expect to recover the losses associated with the drastic drop-off in sales that

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occurred after September 11, but most contacts indicated that sales returned to pre-attack levels very quickly—some as soon as the following weekend, and most within two weeks. High-end and apparel retailers appear to be an exception; sellers of these goods reported depressed sales. Discount retailers reported steadily increasing sales since September 11 and expect September sales to be stronger than August sales. Few retailers are optimistic about prospects for the holiday season and many expect fourth-quarter sales to be well below last year. Most contacts have revised their annual sales estimates downward an additional 2 percent since September 11.

Auto sales in the District declined considerably the week after September 11, but September's auto sales were still close to pre-attack expectations because sales rebounded during the last half of the month. Dealers reported that showroom traffic is now higher than it was in August. Aggressive incentive packages by manufacturers, including zero-percent financing and cash-back bonuses, have contributed significantly to the recent pickup in sales.

### **Construction**

Residential building activity declined significantly the week after September 11, but since the third week of September it has returned to levels described by District homebuilders as normal. Builders are cautiously optimistic about their prospects for the remainder of the year.

Commercial construction activity has declined a bit since the last report, although perhaps more so in the weeks following September 11 as conditions in both the office and retail segments of commercial construction have worsened, but the industrial and warehouse segments have held steady. Some contacts reported that their customers appear to be more cautious since the attacks, but others noted that the favorable interest rate environment has spurred some interest among potential customers.

### **Trucking and Shipping**

Air freight volumes have steadily picked up since September 11 and are now near the levels seen prior to the attacks. Trucking and shipping tonnage changed little after September 11, compared to August and the first week of September. Year-over-year shipments are down significantly, and contacts reported that they have not seen the seasonal September increase in retail and consumer goods shipping.

Input cost pressures are mixed: diesel prices have continued to drop over the past several weeks, and some carriers have eased their energy-associated surcharges. Insurance costs, on the

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other hand, have seen a substantial increase in the District, with some contacts reporting that premiums for umbrella coverage have tripled since they last renewed their contract. Security costs for air freight have also increased considerably, and most carriers are passing these increased costs on to their customers through surcharges.

### **Banking**

Fourth District banks reported mixed developments stemming from the recent rate cuts. The net interest margin improved for most banks, but a couple reported tightening in the margin. Half of our contacts reported a drop in demand for commercial loans, while the other half reported no change in commercial loan activity. Consumer loan activity has been mixed: mortgage lending for both purchasing and refinancing has been strong, while consumer credit has weakened. Most banks reported a slight increase in the rate of loan delinquencies, and almost all contacts reported some decrease in credit quality. Loan applications have remained steady since the last report.

### **Travel and Tourism**

Contacts noted that since the attacks, meeting planners have changed their criteria when selecting locations for large events: they now favor cities that are easily accessible by ground travel over cities with large airports. Cities with larger airports reported a higher percentage of cancellations of planned conventions and conferences than those without. For the most part, events are being postponed rather than cancelled, but attendance at these rescheduled events has been and is expected to remain significantly lower than originally planned. Local government administrators are warning that decreased tourism may cause shortfalls in their budgets.

### **Agriculture**

As expected, farmers in the northern part of the District have been able to harvest only 80–90 percent of their annual average yields in both corn and soybeans. Farmers in the southern part of the District reported that their corn and soybean harvests should be above 5-year annual average yields. Livestock farmers across the District reported that business is strong, and prices for beef remain significantly higher than last year.

**FIFTH DISTRICT—RICHMOND**

**Overview:** Fifth District economic activity contracted slightly in September and early October, as consumers pulled back in the wake of terrorist attacks on September 11. Services and retail businesses felt the strongest impact. District hotels, airlines, and travel agencies reported sharply lower revenues. Retailers said that big-ticket sales tumbled in September, though they rebounded somewhat in October, as consumers began returning to stores and automobile dealerships. Manufacturing shipments and new orders were generally steady in September. Growth in the housing market slowed modestly in the weeks since our last report, while leasing of commercial properties continued to trend downward. Price increases remained generally modest at District businesses. In agriculture, cool, dry weather was favorable for corn and soybean harvesting, and both were ahead of schedule.

**Retail:** District retailers reported sharply lower sales in September, particularly in the week following the September 11 terrorist attacks, but a number of contacts noted that their sales rebounded somewhat in early October. Both shopper traffic and big-ticket sales declined in September. Automobile dealers said customer traffic dropped by as much as 50 percent immediately after the attacks. However, customers have returned in the last few weeks, and sales are now running a little above early September levels, boosted by price and financing incentives. Big-box retailers told us that their business was back to normal by the end of September, and some indicated that sales of basic durable goods had picked up in recent weeks. District grocery stores noted stronger sales of canned goods and bottled water. In contrast to rebounding retail activity in many areas, several retailers in the Charlotte, N.C., area said they were continuing to see a reduction in customer traffic as banking and airline layoffs continued in the area. Employment in the retail sector fell moderately in September, while prices were little changed.

**Services:** Service providers reported somewhat lower revenues in the weeks since our last report. Many hotels and travel firms reported sharp declines in business and vacation travel immediately following last month's terrorist attacks. They said that while travel has rebounded in recent days, bookings are still below pre-September 11 levels. At healthcare organizations in the District, contacts told us that activity has remained normal since our last report, but several noted that they were paying more attention to building security and emergency preparedness. A manager at a trucking firm with operations throughout the District told us that demand facing the company was below expectations, leading the firm to decrease employee hours, although they have avoided layoffs.

**Manufacturing:** Activity in the manufacturing sector was steady in recent weeks. Shipments edged higher in September, while new orders matched summer levels. Contacts in the textiles,

electronics, and plastics industries noted scattered signs of stronger demand for their products. A textile manufacturer in Virginia told us that capacity utilization improved due to new products rolled out for discount retailers, while a counterpart in North Carolina said that his company was encouraged by heightened consumer interest in “Made in the U.S.A.” products. Several industries, however, reported weaker sales as a result of the September 11 attacks. A furniture manufacturer in North Carolina, for example, indicated that his business was just beginning to pick up when the attacks occurred, but then orders fell dramatically. Prices for manufactured goods were little changed from our last report.

**Finance:** District loan officers said that while residential mortgage lending continued to be bolstered by declining mortgage rates, commercial lending activity slowed in recent weeks. Growth in residential mortgage lending continued to be fueled by refinancing—a Greenville, S.C., lender said that homeowners were jumping to lock in mortgage rates below 7 percent. In contrast, several commercial lenders reported that business borrowers had trimmed expansion plans in September. A lender in Greenville, S.C., described local businesses as having “hunkered-down” and noted that he did not expect to see a pickup in commercial loan demand in the next few months. A banker in Charleston, W.V., also reported weak commercial loan demand and expected lending in the retail and hospitality sectors to be particularly sluggish for a while.

**Real Estate:** Residential realtors and homebuilders reported generally slower growth in home sales in September and early October. The uncertainty created by events of September 11 reduced buyer enthusiasm in some markets. Realtors in BelAir, Md., and Beckley, W.V., for example, said that “everything stopped” on September 11, while a realtor in Greenville, S.C., said that his agency had 19 home sales “fall through” after the attacks. But home sales in many areas continued to hold or even rise, in part because of lower mortgage rates. A homebuilder in Landover, Md., said that her agency had been very busy, while a realtor in Asheville, N.C., told us that sales contracts had been steady, and that lower mortgage rates had “kept them alive.” Respondents from several areas stated that sales of expensive homes had virtually halted. They said buyers appeared to have downsized their expectations, and that lower and mid priced homes continued to sell well. Most builders reported little change in subcontractor costs or wage rates.

Commercial realtors across the District reported that leasing activity was almost “non-existent” during the week after the attacks. Since then, leasing activity has gradually regained momentum, but remains below early September levels. The District’s industrial sector remained sluggish and industrial leasing activity continued to soften—a Northern Virginia realtor noted that many firms utilizing

industrial space were “belt-tightening” and trying to “right-size.” The office and retail sectors, meanwhile, have shown resilience in recent weeks. A contact in Columbia, S.C., reported that despite a “depressed” attitude within the business community, business firms continued to move forward with their office leasing plans. The demand for Class A office space was generally flat across the District. In Washington, D.C., and Northern Virginia, however, office space was being acquired for displaced Pentagon employees and for other federal government workers.

**Tourism:** Tourism in the District declined sharply in the wake of the terrorist attacks of September 11, but by early October signs of a rebound had emerged in most areas. Contacts throughout the District reported widespread cancellations of conventions in September, in part because of airport shutdowns and flight cancellations. A contact at a hotel in Myrtle Beach, S.C., told us that his business had lost about \$40 to 45 million since the attacks, primarily because of the cancellation of 30 large conventions. He noted, however, that two-thirds of the parties that canceled subsequently rebooked and that business was almost “back to normal.” Respondents in Washington, D.C., said that area’s tourism and hospitality businesses lost about \$10 million a day in revenues in September and that they expected below par revenues in coming months.

**Temporary Employment:** Contacts at temporary employment agencies reported that the demand for workers had weakened somewhat in recent weeks. While several employment agents were optimistic that hiring would strengthen over the next few months, others were skeptical. A contact in Rockville, Md., stated that greater economic uncertainty in light of terrorist attacks and fears of recession led him to expect lower demand for his agency’s services in the coming months. However, a contact in Raleigh, N.C., said he was seeing a “ready to get back to work” attitude at many firms in his area and he expected the demand for workers to strengthen soon. Wages for temporary workers were generally steady throughout the District.

**Agriculture:** Dry weather and cooler-than-normal temperatures provided ideal conditions for crop harvesting in recent weeks. Corn harvesting was ahead of schedule in Maryland, North Carolina, and West Virginia, and was drawing to a close in South Carolina and Virginia, where better-than-expected yields were reported. The soybean harvest was ahead of schedule in Maryland but behind schedule in West Virginia. District agricultural analysts reported that continued dry conditions were stressing pastures in Virginia, resulting in an earlier-than-normal feeding of hay to livestock in some counties.



**SIXTH DISTRICT – ATLANTA**

**Summary:** Economic activity in the Sixth District was significantly affected by the terrorist attacks of September 11. The immediate impact was quite negative, including disrupted sales, air travel and production. Spending appeared to be recovering by late September, but a sluggish pace of activity is expected to dominate the region's economy over the next few months. Merchants reported heavy discounting and anticipated weak holiday sales based on the current low level of “early bird” seasonal shopping. Incentives, such as zero percent financing, bolstered weak vehicle sales, but sales remained well below year-ago levels overall. The single-family housing market continued to moderate through early October. Sales have been supported by a modest reduction of mortgage interest rates, and bankers reported strong refinancing activity. However, commercial real estate markets remained weak. More projects have been put on hold or have been cancelled, and vacancy rates continued to rise. Activity in the tourism and hospitality sector fell across the District after September 11. Traffic has remained low through early October, particularly where airline travel was involved. The factory sector continued to be very weak and some contacts noted falling productivity because of the diversion of resources toward increased security. As before, few signs of increasing inflation were indicated; however, there were reports of much higher liability insurance premiums since the attacks.

**Consumer Spending:** According to District retailers, sales in September were disappointing. Activity was severely disrupted by the terrorist attacks as many stores closed and customers have been slow to return. Discount retailers have fared better than other merchants, although price discounting has been widespread across store types. There appeared to be a gradual return to more normal levels of activity by early October, but merchants anticipated weak holiday sales based on the current low level of “early bird” seasonal shopping.

Contacts reported that the zero percent financing rates and other sales incentives put in place in September have helped prevent a larger collapse in new vehicle sales. Overall, regional vehicle sales were down from last year, despite a late month rally in response to special deals. Some dealers noted that truck sales have been weaker than car sales. Used car dealers noted an excess supply of used vehicles as rental companies were rapidly de-fleeting in response of slower business and pleasure travel.

**Real Estate and Construction:** The single-family housing market continued to moderate through early October. Sales were supported by a modest reduction of mortgage interest rates. Mid-priced homes were in strongest demand, whereas the market for high-end homes softened further in central Florida, Atlanta and Nashville. Reports from south Florida continued to reflect strong demand. Contacts expect new home construction will slow through the end of the year, but home inventories were generally viewed as being balanced.

Commercial real estate markets continued to be characterized by large amounts of sublease space and rising vacancy rates. As a result of recent events, additional projects have been postponed or cancelled. Industry contacts indicated that a significant pick up in regional commercial construction is not expected until next year.

**Manufacturing:** Factory activity continued to weaken in most sectors during September. More lumber mills are expected to close in the District, and the chemical industry in Louisiana is reportedly shedding employees because of weakening demand. A large regional maker of carpet tiles has recently trimmed its work force in light of the slowdown in commercial building. With production disrupted after September 11 because of transportation problems, some firms reported increasing their inventory of supplies. Firms also noted falling productivity

because of time-consuming new security measures, such as checking employees and incoming shipments. Regional suppliers of military apparel reported strong new orders.

**Tourism and Business Travel:** Activity in the tourism and hospitality sector fell sharply after September 11 and traffic remained low through early October, especially where airline travel was involved. South and central Florida were particularly hard hit by a large decline in tourist traffic. European tour operators in Miami noted a large number of cancellations. Central Florida theme parks reported attendance well below normal levels. Destinations that were less dependent on air travel, such as the Mississippi Gulf Coast were less severely impacted. Contacts suggested that increasingly business meetings have been conducted using teleconferencing rather than air travel.

**Financial:** Through early October, District loan demand remained concentrated in the residential real estate area, especially for mortgage refinancing. Some lenders were reportedly showing increased caution toward new consumer loans amid indications of increased loan delinquencies in parts of the region. There has been some tightening of credit standards in commercial lending, particularly in the manufacturing sector.

**Wages and Prices:** Wage pressures continued to subside in the face of mounting job losses in the District during September. In addition to the ongoing contraction in the factory sector, the tourist and hospitality sector posted declining job rolls throughout the region. Hotel/motels, restaurants, and tourist attractions in Florida, Georgia and Tennessee reported job cuts because of low visitor numbers, and the announced job cuts at Delta Airlines will likely hit the Atlanta area especially hard. In response to recent events, the demand for security personnel has increased markedly.

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Consumer price inflation pressures remained subdued. Indeed, many retailers have heavily discounted the prices of consumer items in an effort to stimulate activity. Prices of hotel rooms and airline tickets have also been cut. Gulf Coast oil and natural gas prices have fallen in response to reduced demand. Significant increases were noted in liability insurance rates since the September 11 attacks.

**Agriculture:** According to industry contacts, lower citrus prices caused by a glut in the worldwide supply of orange juice, combined with lower yields related to this year's drought has reduced the value of Florida citrus crop this year to the lowest levels in over a decade. Recent weather conditions were favorable for most other District crops. However, about a third of the cotton crop in Louisiana and Mississippi was rated as being in poor to very poor condition through early October.

## SEVENTH DISTRICT—CHICAGO

**Summary.** On balance, economic activity in the Seventh District slowed further in September and early October. Reports indicated that the tragic events of September 11 had an immediate negative impact, but many related business disruptions had been alleviated by the weekend. Consumer spending continued to soften, with sales of nondurable goods doing better than sales of most durable goods and services. Residential construction and real estate markets slowed some, but low mortgage rates kept buyers in the market. Commercial real estate markets weakened noticeably, with businesses becoming more uncertain about investment plans. Manufacturing activity continued to slow, and increased business caution further dampened capital expenditures. Lending activity was mixed, with demand for business loans falling and mortgage refinancing surging. Labor demand softened and there were few reports of intensifying upward wage pressures. There were virtually no reports of upward price pressures and several reports of falling transaction prices. Most contacts were satisfied with their current inventory levels. The fall crop harvest was generally progressing well, with good yields reported in the southern and eastern parts of the District, though there were indications of “spotty” and “disappointing” yields in the north and west.

**Consumer spending.** Consumer spending was somewhat softer in September and early October, after temporarily dropping off significantly during the period immediately after September 11. Contacts noted that by late September and early October, fundamental economic factors—rising unemployment and falling stock prices adversely, and low inflation and interest rates positively—affected retail sales more than terrorist fears. Sales results of discount stores continued to outperform those of department and specialty stores, and in some cases the spread widened. One contact reported that retailers were canceling or delaying orders for the holiday season. Promotional activity was generally slower, though there were some reports of small retailers boosting advertisements. In general, sales of nondurable goods were better than sales of durable goods, but there were exceptions. While clothing sales were soft, appliance sales were beginning to see year-over-year gains, excluding a few days after September 11. District vehicle sales have been very strong since automakers announced zero percent financing programs in late September; one dealer reported that 35-50 percent of their September sales came in the last weekend of the month. Contacts in the casual dining industry reported that activity in the District was weak. Spending on services, such as air travel, hotels, auto repair, and rental cars, generally was weak, though business at a District movie theatre chain was described as “steady.” Contacts in the air travel industry reported that passenger load factors were below normal, but up from when air travel initially resumed in mid-September. One contact at a regional airport indicated that load factors on flights at smaller airports were in worse shape than those at larger ones. There were no reports of inflationary price pressures on the retail level. Most contacts reported that consumers were increasingly price conscious and there were many reports of price discounts.

**Construction/real estate.** Real estate and construction activities generally softened notably in the weeks after September 11. Office vacancy rates continued to rise in most areas and rents were said to be flat to declining. Reports of anxiety among occupants of some of Chicago's trophy office properties became more frequent. According to one contact, "more than one" tenant of a prominent office tower in the city were looking to leave the building, for fear of losing workers left skittish by the World Trade Center attacks. Some tenants noted that workers in high-rise buildings were less productive because of security distractions. One hotel operator reported that vacancy rates were rising and many room bookings had been lost since September 11, including 30 percent of the company's convention business. Vacancy rates were also said to be rising on industrial properties in some areas, and there were scattered reports of light industrial projects being put on hold. Contacts in commercial real estate reported that their clients had become decidedly more pessimistic since September 11. Residential activity also slumped immediately after September 11, but picked up later in the month as low mortgage interest rates kept buyers in the market. One Chicago-area realtor indicated that traffic through existing homes had picked up to about 85 percent of early September levels; however, according to other District contacts, traffic through new models had not picked up to the same extent. Both realtors and builders noted that demand remained soft for high-end homes, and may have softened further.

**Manufacturing.** Activity at District manufacturers continued to weaken in September and early October, and there was no mention of bottoming as there had been in our previous Beige Book report. Contacts generally reported that orders and shipments were down by double-digit percentages from a year earlier. Reports almost universally indicated that the events of September 11 had an immediate negative impact, but the extent and length of that impact varied. Contacts reported some supply chain disruptions due to increased security at U.S. borders, but as the problems eased in a few days, none had any plans to increase inventories to prevent any future potential shortages. In the week following September 11, nationwide light vehicle sales dropped around 50 percent, but zero percent financing programs by domestic automakers contributed to a sales surge late in the month that continued into early October. Contacts were unsure whether the incentives were only taking sales away from future months, rather than generating new sales, though one noted, "We are planning for the worst, hoping for the best." There were some reports of rental car companies reducing their fleets and orders for new vehicles. Plant shutdowns on September 11 and subsequent delays in receiving parts from Canada and Mexico led to significantly larger-than-planned vehicle production losses. Heavy truck sales continued to languish, but it was difficult for contacts to determine how much the tragedies on September 11 affected sales. Steel shipments and production were down significantly, with production declines larger in the Midwest than the rest of the nation. Orders for machine tools declined and one industry contact noted, "This is the worst business environment I have seen in my 29-year career." Shipments of heavy machinery continued to fall, with somewhat larger declines seen following September 11. Construction equipment suffered the most, while farm equipment demand was flat and demand for coal

mining equipment was solid. A representative from one equipment maker in the District lamented that the overwhelming uncertainty in the current economy was “the enemy of capital spending.” Contacts reported that prices for most manufactured products, materials, and inputs were down.

**Banking/finance.** Overall lending activity was mixed in recent weeks, as uncertainty about the near-term economic outlook increased. Bankers suggested that business lending slowed as firms appeared to be putting major decisions on hold. In addition, reports indicated that some businesses were weighing future capital spending against increased investment in security. Loan officers at some banks were reportedly “spending more time combing through existing accounts than mining for new business.” Commercial loan quality deteriorated further in recent weeks, but there were no reported changes in standards and terms for business loans. On the household side, mortgage refinancing activity surged in recent weeks as homeowners took advantage of lower interest rates. One banker noted that refinancing activity was near record levels and would most likely exceed them in coming weeks. Demand for new mortgages was reportedly mixed, but relatively strong. One lender stated that “if you have the need, there is no better time” to take out a mortgage. Credit quality continued to deteriorate slightly, with delinquencies increasing on many types of loans, including mortgages and home-equity loans.

**Labor markets.** Labor markets softened further after September 11. Year-over-year increases in initial unemployment insurance claims surged in the weeks following the attacks. Tourism and travel firms in some larger metro areas were quick to trim payrolls as business fell off significantly after September 11. One aircraft engineering firm in the District has sharply cutback its hiring needs and has begun laying off workers. Some reports suggested that retailers’ fall hiring will be slower than in recent years as expectations for the holiday shopping season weakened. At least one national retail chain was already reported to be shedding workers. Some high-tech services firms continued to layoff workers and at least one also cut top executives’ pay. There were reports of automakers shedding or considering layoffs of some white-collar workers in a new attempt to cut costs. A national survey showed that fourth-quarter hiring plans of Midwest employers were the lowest since 1994. There were no reports of intensifying upward pressure on wages.

**Agriculture.** Soybean and corn harvests were progressing rapidly in District states. Harvest in the southern and eastern reaches of the District neared completion. The USDA’s October 12 Production Report revised upward (from September) estimated soybean and corn production in District states. The soybean harvest was expected to be up more than 4 percent from last year while corn production was expected to be down about 3-1/2 percent. Some District contacts were surprised by the upward revisions. They noted that, as expected, the “best crops” were in the southern and eastern portions of the Corn Belt. However, recorded yields were dropping off sharply as the harvest moved north and west. They expected that average yields would fall below the latest USDA estimates. Most crop prices at the farm gate remained at low levels—corn slightly above a year ago and soybeans well below a year ago. Beef and pork prices weakened recently. However, milk prices were at or near their highest levels in a decade.

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### **Eighth District - St. Louis**

#### **Summary**

Economic activity in the District has continued to slow, particularly in the manufacturing sector. Automobile sales were lower for the period immediately following the attacks of September 11th, but have lower interest rates have bolstered sales more recently. The residential real estate market has softened, and some parts of the District are also seeing softer commercial real estate markets. Total loans by District banks are down slightly, but the recent trend toward stricter loan standards has become less pronounced. Although crop conditions and yields have been mixed due to recent rains, corn and soybean yields have been better than expected.

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

Overall, the level of activity in the District's manufacturing sector is lower than in recent months. Districtwide, boat, auto and tire, furniture, packaging, carpet, and electronic materials plants are among those facing cutbacks and closures, citing reduced orders and weak consumer confidence. In contrast, contacts in northeast Arkansas note that, although there is little talk of expansion in the manufacturing sector, talk of impending layoffs or closures has actually decreased.

Service industry contacts report flat-to-slowng activity throughout the District. In response to diminished air travel, increasing costs, and narrowing profits, the Northwest Airlines hub in Memphis cut 1,100 jobs and reduced services. Following the September 11th attacks, the trucking industry experienced a brief increase in activity while air service was grounded, but has since seen freight volumes decline. Automobile dealers throughout the District report that traffic has picked up after the initial drop in the two weeks following September 11th, but that sales still remains lower than usual for this time of year. In St. Louis, auto manufacturers stopped



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production for a week to allow sales to catch up with inventories, although this did not involve any permanent worker layoffs. Manufacturer incentives, including zero-percent interest rates, have helped to bolster sales of new autos, but not by as much as some dealers had hoped. Retailers, too, note flat sales. Nonetheless, they express guarded optimism as they prepare for the holiday season, which could make or break their year.

### **Real Estate and Construction**

Residential real estate sales in the District were mixed over the past six weeks following the events of September 11th. Agents in Louisville and Little Rock report a drop in housing sales, while sales in northern Mississippi and Memphis remained steady. Without lower mortgage rates, sales levels would have been lower. Realtors throughout the District say that the number of appointments to show homes is also down from a year ago. The market for office and industrial space is still strong in Louisville and Memphis. A contact in St. Louis, however, reports a decrease in the number of tenants signing leases for office space along with an increase in vacancy rates.

Residential construction still looks strong: over three-fourths of the District's metropolitan areas experienced an increase in monthly building permits from July to August, and August's levels were higher than a year earlier. Commercial construction in western Kentucky has slowed, although contacts in the rest of the District do not report any changes. Major projects to improve Kentucky's highways, dams, and bridges will expand construction opportunities in that portion of the District.

### **Banking and Finance**

A recent survey of senior loan officers at District banks indicates tighter standards for commercial and industrial (C&I) loans to technology firms in the last three months. Credit

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standards for commercial real estate loans, residential mortgages, consumer loans, and credit cards were largely unchanged. Demand for C&I loans and consumer loans has become moderately weaker. Contacts report that demand for commercial real estate loans, residential mortgages, and refinancing has increased markedly following the recent reductions in the federal funds target.

Contacts report that there were no problems with bank liquidity following the September 11<sup>th</sup> attacks. Small banks in western Tennessee and Mississippi continue to be troubled with bankruptcies and increases in the number of loan delinquencies. Larger urban banks have reported increases in loan loss provisions.

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

The fall harvest is on schedule, although recent rains have delayed field activities in most areas of the District. Reports from northwest Mississippi suggest that, because of late-season rain damage, some early-planted soybeans were plowed under because of fungus. A light frost hit the northern parts of the District in early October, but no significant damage to soybeans was reported, as the soybean and corn crops, on the whole, had already reached full maturity. That said, in portions of Illinois and Indiana, farmers have focused on harvesting soybeans ahead of corn so as to avoid potential frost damage. The soybean harvest is ahead of last year's pace in Arkansas, Kentucky, Illinois, and Indiana, but behind schedule in Missouri, Mississippi, and Tennessee. The corn and cotton harvests in the District are, on average, behind last year's pace. In contrast, the rice harvest in Arkansas and Mississippi is ahead of last year's pace.

Early reports from Illinois, Indiana, and Missouri farmers suggest that yields are widely mixed for corn and soybeans, as scattered rainfall throughout much of the growing season

#### VIII-4

resulted in an uneven harvest. Contacts report that yields on corn and soybeans are running at or slightly above what many farmers had expected.

## **NINTH DISTRICT--MINNEAPOLIS**

Economic activity in the Ninth District has weakened since Sept. 11. Tourism, commercial real estate, manufacturing, agriculture and mining are down, while residential real estate, consumer spending and energy activity are about even. Labor markets have been disrupted by major layoffs and a Minnesota state government employee strike. Overall wage and price increases are moderate, with the exception of higher health insurance costs and lower natural gas, gasoline and lumber prices.

### **Construction and Real Estate**

Construction activity in the district is down from a year ago. Leasing and sales for office building space were significantly down in September compared with a year ago in the Minneapolis area, according to a representative of a commercial real estate firm.

Commercial real estate officials in Minneapolis-St. Paul reported that rental rates have dropped since July. However, an economic development official in Fargo, N.D., noted that commercial construction activity did not slow down during September and early October.

Residential real estate activity is generally level. A representative of a realtors association in the Minneapolis area reported that since Sept. 11 buyers and sellers have returned to the market, but sales are at a slower pace than they were earlier this year. Price increases for homes have recently slowed, according to a mortgage broker. September building permits in the Minneapolis-St. Paul area were even with a year ago, said a builders association spokesperson. In Sioux Falls, S.D., a banker reported that real estate activity is still busy following Sept. 11. Officials in Rochester, Minn., noted a record number of new home starts during September.

### **Consumer Spending and Tourism**

Retail sales are about the same as a year ago. A major Minneapolis-based department store retailer noted that overall same-store sales in September were almost even with a year earlier. A North Dakota mall manager reported about average sales for this time of year. In Montana a mall manager reported that while luxury items, such as jewelry, are down, recent sales of many low- to mid-priced products are higher than a year ago. A Minneapolis-area mall reported solid sales during September compared with the same period last year. However, the larger tenants in a St. Paul-area mall reported September sales down from a year ago.

Auto dealers in Minnesota reported a gradual shift back to normal fall activity in both sales and service following a decline during the week after Sept. 11, according to a representative of the Minnesota auto dealers association. A North Dakota auto dealers association spokesperson noted strong sales from mid-September through early October after sluggish sales in early September, in large part due to zero percent financing.

Tourism businesses that rely on air service report lower levels of activity compared with a year ago. Total passengers at regional airports were down about 30 percent in September compared with last year. Hotel occupancy in the Minneapolis-St. Paul area dropped about 20 percent during the first two weeks following Sept. 11 compared with a year ago, caused in part to 11 convention cancellations. However, no conventions have canceled for October, and hotel occupancy showed signs of improvement by the beginning of October.

In contrast, driving destinations report steady activity. September tourism in northern Wisconsin was about the same as a year ago, according to chamber of commerce officials. Several tourism businesses and destinations in South Dakota reported normal activity during September. Chamber of commerce officials in northern Minnesota and Montana noted that higher security and longer wait times at Canadian border crossings have had a minimal effect on tourism. However, in the Upper Peninsula of Michigan crossings at the International Bridge at Sault Ste. Marie were off 24 percent in September compared with a year ago.

### **Manufacturing**

Overall manufacturing activity is slightly down, but conditions vary across the district. A September survey of purchasing managers by Creighton University indicated decreases in manufacturing activity in Minnesota and increased activity in the Dakotas. As evidence, a Minnesota electronic control producer is reducing production. A data storage plant in North Dakota is expanding production. A farm equipment manufacturer will close a factory in Minnesota and transfer production to a South Dakota plant. An Upper Peninsula medical equipment maker plans to expand its manufacturing facility. Supply disruptions were not significant, according to 73 percent of respondents of an early October survey of former bank directors and advisory council members. However, some contacts reported the increased use of trucks instead of planes to ship supplies and products and longer delays at international border crossings since Sept. 11.

**Mining and Energy**

Activity in the energy sector is level, while mining production decreased. District oil and natural gas exploration levels remain about the same as last quarter. Two northern Minnesota iron ore mines shut down in October for six weeks and eight weeks respectively to reduce inventories.

**Agriculture**

Agricultural conditions have deteriorated across the district. The harvest for many district crops is behind last year. Small grain production is down significantly from last year. Meanwhile, October hog and cattle futures prices decreased 3 percent and 5 percent respectively from Sept. 10 to Oct. 9. Meanwhile, due to increased enrolled acres, October year-over-year Conservation Reserve Program payments increased across the district from 5 percent in North Dakota to 8 percent in Minnesota.

**Employment, Wages and Prices**

Airlines and other travel-related industries have reported layoffs since Sept. 11. A major Minnesota-based airline will cut 10,000 jobs company-wide (4,500 jobs in Minnesota), a smaller carrier plans to reduce staff by 250 jobs, and an affiliated travel company will cut 150 jobs. A regional carrier will shed 400 jobs. About 200 jobs will be cut at least temporarily at a company that prepares food for airline flights. In addition, about 28,000 state employees in Minnesota were on strike for two weeks in October. However, results of the survey of former bank directors and advisory council members show that 82 percent expect no change in employment levels as a result of the Sept. 11 attacks.

Wage increases remain moderate. A temporary staffing agency in Minnesota reported no changes in wages since Sept. 11.

Overall price increases remain modest, with significant price increases expected in health insurance and decreases noted in natural gas, gasoline and lumber prices. Many businesses in South Dakota expect 20 percent increases in health insurance rates for 2002 compared to 2001, according to the state chamber of commerce. November futures prices for natural gas decreased 11 percent from Sept. 10 to Oct. 9, while prices for gasoline in Minnesota dropped 34 percent from Sept. 10 to Oct. 8. Lumber prices declined after Sept. 11, according to a lumber company owner. Almost 60 percent of respondents to the former director and advisory council survey expect no change in expenses for their company due to Sept. 11; 26 percent expect expenses to increase.

**TENTH DISTRICT - KANSAS CITY**

**Overview.** The Tenth District economy weakened in September and early October. Retail sales dropped immediately following the terrorist attacks and recovered only partially in the next several weeks. In addition, the slump in manufacturing worsened, residential construction activity slowed, and commercial real estate activity declined. Energy activity also fell somewhat after increasing most of the year. In the farm economy, fall crop yields were mixed and weaker cattle prices trimmed profits for cattle feeders. District labor markets eased, as previously scheduled job cuts took effect and more layoffs were announced. Wage pressures remained minimal outside of a few skilled occupations. Retail prices and prices for construction and manufacturing materials were largely stable, while manufacturing output prices edged down.

**Retail Sales.** Retail sales declined from the previous survey and were below year-ago levels in most of the district. Many stores shut down on the day of the terrorist attacks and most experienced slower than normal sales the rest of that week. Sales had recovered somewhat by the following weekend but remained below normal in most places through early October. High-end retailers generally suffered the biggest declines in sales, while large discount stores and grocery stores fared better. Retailers expect activity to remain somewhat subdued through the holiday shopping season. Motor vehicle sales in September were strong in some areas due to attractive financing packages, but remained soft in others due to consumers' unease about the economy. Dealers expect sales to weaken once the consumer incentives come to an end.

**Manufacturing.** District factory activity weakened again after showing some signs of improvement in August. A greater percentage of firms reported year-over-year declines in production, shipments, and most other indicators of factory activity. In addition, more manufacturers reported declines in employment than in previous surveys. Layoffs were announced in a variety of industries, but especially among aircraft manufacturers and parts suppliers. Several firms mentioned that the biggest immediate impact of the terrorist acts was a reduction in executive air travel, which they feared could disrupt sales. Capital expenditures at district plants continued to fall along with expectations of future activity. Most plants were trimming

inventories in September and planned to continue doing so. No significant material shortages were reported, and supplier delivery times were little changed despite some disruptions immediately following the terrorist attacks.

**Real Estate and Construction.** Residential construction activity eased in September and early October, and commercial real estate markets continued to weaken. Housing starts were down in most cities, with some cities reporting considerable declines. Many builders reported a dropoff in customer interest following the terrorist attacks and some said a few customers cancelled orders. Some builders, however, reported that demand was slowing even before the attacks. Home sales were markedly below year-ago levels in some cities, and many realtors reported reductions in buyer traffic. Mortgage demand held steady in September as increased refinancing activity made up for fewer home purchase applications. Commercial real estate activity declined somewhat further, with construction, rents, and absorption all showing more weakness. Vacancy rates were higher than a year ago in nearly all district cities, and slightly higher than in the summer. Commercial lending standards were reported to be slightly tighter than in the previous survey.

**Banking.** Bankers report that loans decreased and deposits increased since the last survey, reducing loan-deposit ratios. Demand fell for commercial and industrial loans, consumer loans, and commercial real estate loans. A number of bankers attributed the weaker demand for these categories to increased caution on the part of borrowers, some of whom are making a greater effort to pay down their loans. On the deposit side, increases in demand deposits outweighed declines in large CDs. All respondent banks reduced their prime lending rates since the last survey, and almost all banks decreased their consumer lending rates. A few banks tightened their lending standards, citing the slowdown in the economy and the increase in uncertainty.

**Energy.** Energy activity in the district declined in September and early October. The region's count of active oil and gas drilling rigs continued to fall from a 14-year high established in July, reaching a six-month low in the first week of October. Some producers attributed the decline in drilling to the steep fall in natural gas prices since last winter, which has discouraged the drilling of marginal wells. District sources expected natural gas prices to remain fairly low through 2002, but believe long-run prospects for the energy



industry are still favorable.

**Agriculture.** Fall crop yields were mixed across the district, and district cattle feeders suffered some decline in profits. With the fall harvest almost complete, corn and soybean yields in the southern part of the district were below normal due to adverse weather over the summer. Elsewhere, yields were average or better. Rainfall came in time for planting of the district's winter wheat crop, which is generally ahead of schedule. Large supplies of market-ready cattle put downward pressure on finished cattle prices, trimming profits for district cattle feeders. Bankers reported that small business activity in rural areas was sluggish, continuing the slowdown that began prior to the terrorist bombings.

**Wages and Prices.** District labor markets eased in September and early October, as sizable job cuts were announced and previously announced layoffs took effect in many parts of the district. Employers were reported to be taking more time in screening and hiring new workers, with many having a waiting list of applicants for the first time in several years. Several retailers said they would not be hiring as many temporary holiday workers as in previous years. Worker shortages persisted, however, for nurses and skilled construction trades. Wage pressures remained minimal outside of these fields. Several contacts reported that there has been a definite shift in unions' focus from wages to working conditions over the last six months. Retail prices were flat for most items, although several stores lowered prices to clear excess inventory. Most store managers expect flat prices through the remainder of the year. In the manufacturing sector, input prices were flat and output prices fell slightly. Both input and output prices are expected to edge up in coming months. Builders reported that prices for most construction materials were stable.

## ELEVENTH DISTRICT—DALLAS

Eleventh District economic activity weakened further in late September and early October. Many service businesses reported a severe drop in demand following the week of September 11<sup>th</sup>, and activity has not returned to the level of early September. Retail sales also weakened. Manufacturing activity has accelerated its decline, and the energy industry has weakened considerably. Construction and real estate activity fell. Financial service firms reported weaker loan demand. Agricultural conditions continued to worsen.

**Prices and Labor Markets.** Price declines were widely reported. Oil prices fell \$5 per barrel since the last Beige Book, and inventories of crude and products have risen sharply. Many contacts reported a drop in selling prices, and some anticipate further price declines. Raw material costs are also declining, although in many cases not as fast as selling prices. Fuel surcharges have been eliminated. Insurance costs have increased sharply for some firms.

The labor market has softened dramatically. Many layoffs have occurred, particularly at firms in the travel and tourism industries. Several service and manufacturing industries are contemplating layoffs or additional layoffs. Contacts reported that it is significantly easier to hire than at this time last year. While wage pressures have subsided, health insurance costs have more than doubled for some firms.

**Manufacturing.** Manufacturing activity accelerated its decline in September and early October. Several industries reported a reduction in their sales and outlook following September 11, including high technology, glass, apparel and fabricated metals. Producers supplying the automobile industry reported a sharp drop in sales. Downstream energy-related manufacturing has benefited from lower oil and natural gas prices, but weak demand and overcapacity dampen the outlook for these industries. Construction-related manufacturing continues to slow.

Some construction-related manufacturers, particularly those supplying home building and highway construction, reported little change in activity, although some have revised down their outlook. Contacts in the cement industry say they are continuing to work off backlogs of demand. Cement producers do not expect to see any effects from the September 11<sup>th</sup> attacks until next year, if at all. Brick manufacturers reported continued slowing of demand, as single-family home construction decelerates. The lumber industry reported a slight decrease in demand, although contacts have become more pessimistic about their outlook.

Demand for fabricated metals was slowing prior to September 11 and is slowing faster now. One contact said conditions are “as tough as I’ve seen them in 10 years.” Selling prices have fallen dramatically, according to contacts who say that structural steel is selling at prices of 20 years ago. Raw materials prices have also declined, but margins are very thin. Primary metals producers say activity has slowed since earlier in the year, but they have yet to feel any effects of the September 11<sup>th</sup> attack.

Glass producers reported drastic declines in demand since the last Beige Book. Sales of glass for commercial purposes are down as much as 40 percent, while sales for residential building fell 15 percent. Sales of glass used for automobiles also declined, as some car plants scaled back production. Inventories of glass are high, prices are falling, and production is being reduced.

Apparel demand has also softened since September 11. Orders of apparel have been cancelled and inventory has been returned, causing inventories to build. Demand for food products picked up briefly after September 11<sup>th</sup> because consumers were stocking up on some products. However, demand has now returned to early September levels. Inventories of frozen strawberries and some vegetables are low because of weather-related production problems in Mexico.

High-tech manufacturing activity weakened after September 11, and many contacts said their business customers have put orders on hold. Contacts reported in the last Beige Book that they were optimistic the industry was bottoming out. That optimism has dissipated, and most contacts expect a slightly steeper downturn with the recovery pushed forward from the end of this year to the first or second quarter of 2002. All high tech respondents reported that they have been successful in maintaining lean inventories, with the exception of the telecommunications industry. Telecommunications firms continue to report weak and falling demand. Layoffs continue, and contacts say that companies are in need of cash. A rebound is not expected until the third quarter of 2002, at the earliest.

Responses from paper and packaging producers varied depending on the industries they sell to. Some producers reported a slight increase in demand while others, such as one selling to the auto industry, reported a severe drop. A company that sells packaging for exports also reported a drop in demand. Demand for printing has fallen sharply, according to contacts, who say this is the worst printing market in the last 20 years.

Petrochemical contacts say falling natural gas prices have led to a pick up in export demand because the competitive position of domestic producers relative to the rest of the world has improved. The industry continues to suffer from severe overcapacity, however, and chemical prices fell along with feedstock prices.

Demand for refiners on the Gulf Coast has been helped by problems following a fire at a Chicago refinery. Refiners reported improved margins because the price of product has fallen more slowly than the price of crude oil. Gulf Coast refineries continue to produce at high levels. They are just entering the turnaround season, shutting plants for maintenance and switching from gasoline to heating oil production. Jet fuel is easily converted to heating oil, and contacts expect much of the reduced demand for jet fuel to be used to build heating oil stocks. Fears of shortages of heating oil this winter have quickly abated, and inventories are already 7 percent higher than last year.

**Services.** Service sector activity was mixed in September and early October with some industries reporting a slight softening of activity while others reported sharp declines. There was a sharp drop in demand for hotels, car rentals, tourism, airlines and airline-related firms after September 11<sup>th</sup>, which has led

to a large number of layoffs. Transportation firms reported that passenger and cargo volume is down. Airline demand is currently down roughly 30 percent from pre-September 11<sup>th</sup> levels. Airline revenues are below operating costs, according to contacts, despite layoffs and other efforts to reduce costs. Railroads and the trucking industry also reported a slight decline in demand that they attribute to the slowing economy. While transportation firms benefit from the drop in fuel prices, they say insurance costs have increased significantly.

Business service firms reported little change in activity, although some contacts have revised down their outlook for sales growth. Demand for temporary services remained soft. Contacts say they have revised down their outlook for the remainder of the year. The industry expects to continue to grow next year, but at relatively weak levels. Legal firms reported strong demand overall. Real estate and other transactional activity (mergers, venture capital) have dropped tremendously, according to contacts, but court cases and bankruptcy-related work is on the rise.

**Retail Sales.** Retail sales weakened in September and early October. Sales fell sharply during the week of September 11<sup>th</sup>, rebounded strongly, then tapered off. Sales are now below the pre-attack levels for most retailers—significantly below for some. Contacts say consumers are staying away from malls because of security concerns. Consumers have become more cost conscious and have increased purchases of consumables. Inventories are up—substantially for some retailers. Discounting has accelerated, which has reduced profits. Further discounting is expected. All retailers have reduced their outlook for sales growth, and several noted extreme uncertainty. In general, most are projecting a subdued holiday season. Retailers are reducing their seasonal hiring, and some are restructuring, laying off workers, or restricting hiring at the executive level.

Auto dealers reported a significant, sharp drop in demand after September 11, but sales have picked up over the past two weeks, boosted by many dealers offering zero percent financing. Contacts expressed concern that sales will drop off when the financing incentives are no longer available. Used car sales are down roughly 25 percent.

**Financial Services.** Loan demand continued to weaken. Deposit growth is mixed, with some institutions reporting continued slow growth and others, mostly smaller institutions and credit unions, reporting a pick up in the rate of deposit growth. In addition to new deposits, loan payoffs have accelerated dramatically in the last two months. Contacts expect delinquencies to increase later this year.

**Construction and Real Estate.** Overall construction and real estate activity fell since the last Beige Book. Single-family home sales suffered steep declines following September 11, but have bounced back a bit. Builders reported that home sale cancellations have increased steadily since the attacks. Selling prices are falling. The first-time buyer market continues to be strong, however. Multifamily activity has also declined, and contacts are deferring projects that “don’t have to open.”

Nonresidential markets remained very soft, particularly in tech-heavy Dallas and Austin. Office rents declined 15 percent in the last two months and are expected to fall another 10 to 15 percent before a

turnaround. Contacts say subleasing has leveled off. The big box industrial market is overbuilt, contacts say, and projects have been shelved. Commercial builders are “getting hungry” as backlogs decline.

**Energy.** Drilling activity weakened considerably in the past six weeks. Oil demand dropped nearly 5 percent, led by a reduction in the consumption of jet fuel. U.S. drilling activity fell by 110 working rigs, with virtually the entire decline in gas-directed drilling. Offshore drilling, which declined sharply over the summer, has stabilized in recent weeks. Declines are now reported in expensive on-shore areas. Day rates for rigs continued to fall. Orders for oil services and equipment have softened some, but contacts reported that prices are still fairly good, boosted by international drilling. However, the domestic market is expected to soften substantially over the next few months. Some respondents expect the U.S. rig count, which is just over 1100 rigs, to fall to 800 rigs by early next year.

**Agriculture.** Agricultural conditions continued to worsen. Some areas remained dry, but heavy rains delayed harvest and damaged crops in other areas, bringing large financial losses for affected producers. Demand for cotton has turned sluggish, exacerbating already large world stocks. Cotton prices are low, and contacts say they could fall further. Beef demand also softened some, as eating away from home has declined. Supplemental feeding of livestock remained constant for many producers, but quantities were decreasing as pastures were improving.

**TWELFTH DISTRICT – SAN FRANCISCO**Summary

Contacts reported that economic activity slowed during the survey period of September through early October, as the negative repercussions of the September 11 terrorist attacks added to underlying weakness in many sectors. Upward pressure on wages and prices was limited overall, with price declines or discounts noted for gasoline, travel-related services, and some categories of retail goods. Retail and travel spending dropped precipitously during the week of September 11, then recovered noticeably but generally remained below respondents' pre-attack expectations. Production and employment in most manufacturing sectors fell, and firms held back on investment. Ample supply and low prices were reported for most agricultural products. Demand for real estate and construction activity fell in most areas, with some projects facing financing and insurance obstacles. Loan demand at banks weakened somewhat, especially for business loans.

Wages and Prices

Wages and final prices of goods and services exhibited little or no upward movement on average, with price declines evident for some items during the survey period. Since September 11, sharp reductions in tourist and business travel have led to substantial discounts on hotel rooms and airline tickets. Respondents also noted discounts for some retail goods, especially clothing at department stores, and retail prices fell for gasoline and natural gas. By contrast, the payments for some types of insurance policies rose, and medical insurance costs reportedly were running 15 percent or more above their levels from a year ago. Wage increases were moderate, in the range of 2 to 4 percent on an annual basis. In some areas, greater availability of workers led to more downward flexibility in salary negotiations.

### Retail Trade and Services

Consumer spending was weak overall during the survey period. Following a sharp drop in retail spending during the week of the attacks, reports for some areas and sectors indicated a rebound to pre-attack spending levels, although these already were somewhat weak. Other reports indicated only partial recovery, with sales generally running 5 to 10 percent below pre-attack expectations. Some department stores, which were hit hardest by the spending slowdown, commenced sizeable layoffs. By contrast, large discount chains saw solid demand, with year-over-year sales gains reported. Automobile sales fell about 50 percent during the week of September 11; by the end of September, sales had improved but remained below normal. Except for weakness on the day of the attacks, sales at grocery stores and pharmacies reportedly were strong throughout the survey period, as some consumers apparently switched from restaurant visits to home dining and continued to buy necessary medical items.

Demand for services by consumers and businesses was quite weak, as spending on travel and tourism plummeted during the weeks following the attacks. In Hawaii, tourist visits and spending were about 25 to 30 percent below normal. Airlines in general reduced flights by about 15 to 20 percent at District airports. Hotel occupancy rates, which already were running below year-earlier levels prior to September 11, fell by half or more during the week immediately following the attacks; by month-end, they had improved but remained quite low, with reported rates ranging from 10 to 50 percent below normal. Advertisers and media outlets saw reduced demand for advertising space and commercial time during the week of the attacks, which exacerbated pre-existing weakness in that sector. Firms in all of these sectors laid off large numbers of employees.

### Manufacturing

Production and employment fell further in the manufacturing sector during the survey period. Although capacity utilization reportedly held steady or increased slightly for semiconductor manufacturers, sales declines and employment cutbacks continued. Similar shrinkage was evident among makers of apparel and machine tools, and manufacturers of wood products saw a sharp decline in sales accompanied by rising inventories and falling prices. Food processing firms continued to struggle, with plant closures and bankruptcies reported in Washington, Oregon, and California. Boeing announced plans for sharp reductions in production and employment due to the expectation of ongoing weak demand for air travel in the wake of the September 11 attacks. On the upside, demand for a few high-tech products, most notably data storage and security systems and wireless communications equipment, held steady or increased in the aftermath of the attacks. Production and delivery delays were reported for many products after the attacks, although the disruptions generally were of limited duration and severity. Investment plans reportedly remain on hold in most areas as firms assess future sales prospects, with little change in plans reported as a direct result of the September 11 attacks.

### Agriculture and Resource-related Industries

Agricultural contacts reported good yields and low prices on most agricultural products, with the exception of some grains. Crop yields and quality were high for tree fruits, and recent grape harvests point to double-digit growth over last year's levels in California and Oregon. By contrast, dry conditions in the Pacific Northwest restricted the supply of grains such as hay and alfalfa, and their prices were high. The supply of beef cattle to market was high, and the price was held low by weak exports to Japan and a reported decline in domestic demand for beef. Respondents provided scattered reports of shipping difficulties; limited availability of air freight



during the two weeks following September 11 reduced sales of fresh produce to the East Coast, and these lost sales were not replaced later.

### Real Estate and Construction

Demand for residential and commercial property eased and current and planned construction activity fell somewhat throughout the District during the survey period. Contacts in most areas reported higher vacancy rates for office and other commercial space compared to earlier in the year. Commercial construction activity had slowed prior to September 11, and uncertainty regarding financing, insurance availability, and future demand for space following the attacks put some planned projects on hold. The pace of transactions and price appreciation also moderated for residential real estate in some areas, due partly but not entirely to fallout from the attacks.

### Financial Institutions

Loan demand weakened somewhat during the survey period. Respondents in several areas noted declining demand, especially for loans to businesses, and slightly increasing delinquencies. The sole exception was Southern California, where a respondent reported a resumption of solid demand following a slowdown during the week of September 11. Activities at some financial institutions were disrupted by market closures and limited availability of overnight and express mail deliveries due to security precautions in the immediate aftermath of the attacks. Brokerage firms laid off workers in some areas, due to weak conditions in stock markets.