



October 15, 2003

Summary

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Summary

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Prepared at the Federal Reserve Bank of New York and based on information collected before October 7, 2003. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Information received from District Banks suggests that, on balance, the pace of economic expansion has picked up since the last report. Ten of the twelve districts indicate that activity has been expanding, while two--Boston and Cleveland--report mixed but steady levels of economic activity. Overall, both wages and prices of finished goods and services remained relatively stable, though there were scattered reports of business input cost pressures. Hurricane Isabel inflicted some limited damage across much of the Richmond District, but the disruptions to activity from the storm were said to be short-lived.

Consumer spending generally strengthened, though most districts report a recent pullback in auto sales. Improving sales trends are reported in New York, Philadelphia, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. Retail inventories are generally described to be at or close to desired levels, and retailers generally anticipate modest year-over-year gains for the upcoming holiday season. Most districts report strengthening in manufacturing activity. Employment in this sector remained generally weak, though some districts note pockets of firming.

Broad-based strength is reported in residential real estate and construction, but commercial real estate markets are still described as sluggish. Travel and tourism activity was mixed but, on balance, showed some improvement. Reports from most other service industries also show improvement.

Banks in almost all districts report a substantial drop-off in refinancing activity since the last report, though there were a few reports of improvement toward the end of September. There was some pickup in business loan demand, while home mortgage and consumer lending were mixed. Credit quality was generally described as good, with only scattered reports of increased delinquency rates. Most districts report favorable weather conditions and improved agriculture yields since the last report, though Richmond reports significant crop damage from Hurricane Isabel.

Labor markets generally remain slack, but some signs of a pickup are reported in New York, Richmond, Chicago, Minneapolis, and Dallas. Prices of finished goods were generally stable, and wage increases continued to be quite modest, though many districts note continued escalation of non-wage benefit costs--particularly health insurance. Also, fairly sharp price increases are reported for cattle and certain commodities, such as steel, lumber, plywood, and natural gas.

Consumer Spending

Most districts report a general strengthening in retail sales but some softening in automobile purchases. A few districts credit the recent federal tax rebates with temporarily boosting sales, though the timing of the effect on sales varied. Non-auto sales are generally said to be improving in New York, Philadelphia, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, while Cleveland, Atlanta, and Chicago describe sales as steady or moderating but still ahead of plan. Boston and Richmond characterize sales as flat but with some pockets of strength. Richmond reports that sales lost due to hurricane-related closures were quickly made up, and that hardware stores, grocery stores, and restaurants saw brisk business after the storm.

Recent reductions in motor vehicle sales are reported in most districts. Automobile sales are said to have weakened in the Cleveland, Atlanta, Chicago, Minneapolis, and Kansas City, Dallas, and San Francisco Districts. St. Louis, on the other hand, reports some improvement in vehicle sales in recent weeks, though they were still lower than a year ago. Also, sales of imports are said to be holding up better than those of domestic makes in the St. Louis, and San Francisco Districts.

Non-auto inventories are generally reported to be in good shape in almost all districts, but vehicle inventories are said to be higher than desired in Cleveland, Chicago, and St. Louis. Looking ahead to the rest of 2003, retailers in most districts are reported to be cautiously optimistic. Modest sales growth is anticipated in Boston, New York, Philadelphia, Cleveland, Atlanta, St. Louis, and Kansas City, while the remaining districts did not specify sales expectations.

Manufacturing

The majority of the districts report a pickup in manufacturing activity, with several indicating significant improvement in a wide variety of industries. Machine tool orders strengthened in the Atlanta and Chicago Districts; semiconductor producers note a pickup in demand in the San Francisco District; contacts in lumber and construction related materials see improvement in several districts; and high-tech manufacturers in the Dallas District indicate gains. On the downside, Richmond reports a contraction in its manufacturing sector, and contacts in Boston report weak demand and a decline in revenues. The Minneapolis District notes only slight gains, and the Dallas and Cleveland Districts report mixed activity. Kansas City, Boston, and St. Louis report a decline in activity in the aerospace industry, and several districts indicate marked deterioration in the textile industry. Activity in the transportation equipment industry was mixed, with declines noted in the Philadelphia District, little change in Chicago, but increases in St. Louis. Several districts report a continuing low level of inventories, and most contacts report that input prices remain high, and above year-ago levels, but have not accelerated further since the last report.

Manufacturing employment exhibited modest gains in some districts, but in most was stable or declining. The Kansas City, Cleveland, and New York Districts report increases in hours worked, and Kansas City, New York, and St. Louis report hiring gains. Capital spending activity was mixed, with contacts in several districts reporting plans to increase capital spending, while the majority of contacts from other districts cite hesitation and lackluster spending plans going forward.

Real Estate and Construction

Residential real estate markets continued to show strength in virtually all districts, while commercial real estate markets remained generally sluggish. Virtually all districts describe

housing markets as robust, despite relatively modest signs of slowing in the Boston, Richmond, Kansas City, and San Francisco Districts. On the other hand, signs of further strengthening are noted in New York, St. Louis, Minneapolis, and Kansas City. A few districts specify that the recent increase in mortgage rates appears to have had at most a limited impact on home sales. Reports from Boston, New York, Chicago, and Kansas City note particular strength for entry-level or lower- to mid-priced homes, as opposed to the high end of the market.

Residential construction is also indicated to be strong in most districts. Recent increases in construction activity are reported in New York, Atlanta, St. Louis, and Minneapolis. Kansas City notes that builders have had trouble obtaining plywood, while reports from Boston, New York, Cleveland, Atlanta, and San Francisco indicate sharp increases in lumber and plywood costs, which, in turn, are said to be squeezing builders' profit margins.

Commercial real estate markets, in contrast, continue to be characterized as weak in almost all districts. Still, a number of districts indicate slight signs of firming since the last report--specifically New York, Cleveland, Atlanta, St. Louis, Kansas City, and Dallas. On the other hand, renewed signs of slowing are reported from Chicago and Minneapolis, while conditions are described as stagnant in Richmond and San Francisco.

Tourism and Services

Tourism and travel activity was mixed but, on balance, improved; however, both business travel and international visitors were still lagging, although there were some scattered signs of recovery. Overall, tourism was described as robust in New York, Kansas City, and San Francisco but sluggish in the Boston District. Since the last report, New York and San Francisco report a pickup in international visitors, while Boston, Minneapolis, and Kansas City note some pickup in business travel. On the other hand, Atlanta describes both of these segments as persistently weak. Richmond reports that Hurricane Isabel caused substantial hotel damage and widespread cancellations along much of the Virginia and North Carolina shore. The evacuations from the storm resulted in a noticeable pickup in business at hotels in less affected parts of the district.

Business conditions in other service industry sectors varied but generally improved. Increased demand for various business-related services (such as legal, accounting, IT, and executive search) is noted in Philadelphia, Richmond, Dallas, and San Francisco. Increases in trucking are reported in Cleveland, while Dallas indicates a decrease in trucking volume but an increase in rail shipments, and New York reports strong increases in port traffic. Boston reports mixed to firmer conditions in the insurance industry, with industry contacts reporting little financial impact from the August blackout and expressing optimism about the business outlook.

Banking and Finance

Banks report mixed but generally favorable conditions. Loan demand is generally steady overall, with some improvement from the commercial sector, but steep declines in mortgage refinancing. Demand for commercial loans strengthened in Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Dallas, and San Francisco, and was little changed in New York. While none of the districts indicates weakening in business lending, a few characterized the level of activity as still low. Demand for consumer and home mortgage loans was steady to weaker in New York, Cleveland, and Richmond, but some firming was indicated in Philadelphia, Chicago, St. Louis, and Kansas City. Most districts report sizable declines in mortgage refinancing activity, though Dallas indicates persistent strength in this category, while Chicago and Minneapolis report a slight bounceback in late September.

Loan quality is generally described as good, with delinquency rates little changed since the last report. Chicago and Dallas report some improvement in loan quality and Atlanta says that loan delinquencies "remained manageable," while Philadelphia cites an increase in debt-service to income ratios, and New York indicates an uptick in delinquencies on consumer and home mortgage loans.

Aside from lending, financial institutions report favorable conditions and brisk growth. New York's securities industry reports strong growth in revenue, profits and compensation. Similarly, financial institutions in the Dallas District report a pickup in mergers and acquisition activity, leading to higher fee income. Finally, San Francisco suggests that a recent acceleration in business deposit in-flows further reflects a pickup in general economic activity.

Agriculture and Natural Resources

Most districts report favorable weather conditions and improved agriculture yields since the last report. However, Hurricane Isabel wrought significant damage in the Richmond District. A combination of flooding, high winds, and power outages resulted in damage to crops, fruit, livestock, and fishing equipment in much of the Richmond District. Otherwise, recent rains have improved crop yields in the St. Louis, San Francisco, Atlanta, Kansas City, and Chicago Districts. These rains, however, caused spotty problems for fall planting in some districts. Suppliers from all cattle-producing districts report banner prices, decent pasture conditions, and are optimistic that profits will follow suit.

Activity in the energy industry was mixed. The Minneapolis District indicates a slight decline in oil and natural gas exploration levels since the last report, while the Kansas City District reports a moderate expansion in oil and gas drilling. The Dallas District reports that activity remained at a relatively high level, but was not quite as strong as might be expected given the current price of oil and natural gas.

Labor Markets, Wages and Prices

Most districts continue to describe labor markets as slack, though there are modest signs of improvement in a number of districts. In general, labor markets are characterized as stagnant in Boston, Cleveland, Atlanta, Minneapolis, and San Francisco. On the other hand, Richmond, Chicago, Minneapolis, and Dallas report increased demand for temporary workers, while New York reports a pickup in hiring across a number of sectors. Both New York and Chicago note that much of the hiring is coming from smaller firms. Kansas City notes some decrease in layoff announcements, as well as an increase in hiring plans.

Modest wage growth is reported across the nation, though continued escalation in non-wage benefits, particularly health insurance, are noted in Atlanta, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco. Rising benefit costs are said to be holding down wage increases in the Atlanta District and deterring hiring in Dallas.

The various districts report little change in prices of consumer goods and services, but steep escalation in certain commodity prices. Retail prices are reported to be stable in Cleveland, Atlanta, Chicago, and San Francisco; steady to slightly higher in Philadelphia, Minneapolis, and Kansas City; and steady to slightly lower in Boston, New York, and Dallas.

In contrast with the general price stability for finished goods and services, prices for a number of commodities have risen sharply. Steep increases in lumber and plywood costs are noted in Boston, New York, Cleveland, Atlanta, Kansas City, and San Francisco--some of this is attributed to post-war rebuilding in Iraq, post-hurricane repairs along the Mid-

Atlantic seaboard, and fires in the West that affected supply. There were also reports of steep price increases for cattle, steel, and natural gas. However, oil and gasoline prices have retreated, following a sharp run-up in August. In terms of intermediate services, a noticeable increase in freight costs is reported in the Minneapolis District, but declines in commercial rents are seen in Richmond, Chicago, and Minneapolis.

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