



July 28, 2004

Summary

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Summary

Districts

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Prepared at the Federal Reserve Bank of Cleveland and based on information collected before July 19, 2004. 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.

Federal Reserve districts reported that economic activity continued to expand in June and early July, although several districts reported that the rate of growth moderated. The Philadelphia, Atlanta, Chicago, St. Louis, Minneapolis, and Dallas Districts characterized growth rates as ranging from modest (Minneapolis) to solid (Chicago), while New York, Cleveland, Richmond, Kansas City, and San Francisco noted that growth rates slowed somewhat in their districts. Boston cited mixed reports from its business contacts. Reports of rising prices at the producer level continued to be common, though increases in retail prices were only infrequently reported. While wage gains remained generally flat, benefits costs continued to rise.

Retail sales were widely cited as having slowed; in particular, most districts reported that auto sales were flat to down. Manufacturing activity increased across the country, though there were pockets of weakness and gains were generally more measured than in the early spring. Travel and tourism were reported to be strong in many districts. Regarding construction, the pattern of past reports continued, as residential construction was still strong across most districts, while nonresidential building remained generally weak. In the banking sector, borrowing by commercial clients rose moderately in most districts. In the consumer lending category, mortgage originations were reported to be robust, but refinancings fell further. Agricultural conditions across the country were mixed, as some areas suffered from unusually wet weather. Mining and energy enterprises saw increases in activity in recent weeks.

Cost pressures were cited for a variety of production inputs in most districts. Energy, steel, and cement prices were widely cited as high and were reported to have moved higher in most districts. Some agricultural product prices, including beef, chicken, and milk, were also cited as adding to pricing pressures. The degree to which businesses have been able to pass along these prices continued to vary, but no district reported an acceleration in general retail prices. The few reports of labor shortages were narrow in scope. Wage increases were also widely reported to be moderate. However, businesses continued to cite health care costs as a factor in significantly boosting total labor costs.

Consumer Spending

Consumer spending moderated across much of the country in June and early July, following strong increases in spending in the early spring. Seven districts reported that consumer spending had softened since their last reports: New York, Philadelphia, Cleveland, Atlanta, Chicago, Dallas, and San Francisco. In the New York, Philadelphia, and Cleveland Districts,

much of the moderation in spending was attributed to weather that was cooler than typical for the time of year.

Kansas City reported that spending had stayed largely flat in recent weeks, while Richmond reported that spending remained flat or was lower. Boston characterized consumer spending in its district as mixed. The districts reporting increases in spending were St. Louis and Minneapolis. St. Louis indicated that consumer spending was strong, whereas Minneapolis characterized spending as showing modest increases. A few districts noted that there were some indications of increases in spending in early July.

Auto sales were generally weak throughout the country in the late spring. Compared with sales in previous months, auto sales in June were characterized as flat or falling by the Boston, Philadelphia, Atlanta, Cleveland, Chicago, Kansas City, Dallas, and San Francisco Districts. Among the districts that commented on automobile sales, only St. Louis indicated that auto sales rose in recent months.

Home furnishings and home improvement items sold well in the Boston, Chicago, and Kansas City Districts, but New York noted that these products sold less well in its district than they had previously. Apparel sold poorly in the Philadelphia, Richmond, and Chicago Districts, but the Dallas District reported that sales of women's apparel was strong. The environment for travel and tourism was reported to be improving in the New York, Atlanta, St. Louis, Kansas City, and San Francisco Districts, but mixed in the Richmond, Chicago, and Minneapolis Districts.

Manufacturing and Other Business Activity

Manufacturing firms across the country continued to report increases in production, continuing the pattern of strong production gains seen throughout the earlier part of 2004. All districts reported increases in production in June and early July, though the Richmond, Cleveland, and San Francisco Districts reported that the pace of increases slowed somewhat. By contrast, Chicago and Kansas City reported robust activity in their districts, and steel production continued to be brisk throughout the Midwest. Philadelphia, Chicago, and Kansas City also reported that firms' expansion of their capital stock continued at a moderate pace; Boston, by contrast, reported that firms in its district do not plan to add additional capital this year beyond already-budgeted increases.

Reports of scattered shortages and longer lead times are an indication of the strength of demand for manufactured items. For instance, significantly longer lead times for many industrial inputs were reported in the Philadelphia and Richmond Districts. Contacts in the Chicago and St. Louis Districts saw shortages of cement; these shortages had been confined to the East and West Coasts in the past. The Cleveland and Chicago Districts noted that shortages of scrap steel continued to constrain production at some of their facilities.

Transportation-related issues were reported in several districts as well. St. Louis and Kansas City reported delays in coal shipments due to crowded railroad lines; contacts in the Dallas District also expressed concerns about congested railroad lines. And Boston noted that declines in trucking capacity had resulted in rising shipping prices. Transportation and shipping services were in high demand across the country, with Philadelphia, Richmond, Cleveland, Atlanta, Dallas, and San Francisco reporting strong increases in activity in recent months for the shipping firms in their districts.

Both the Cleveland and Chicago Districts indicated that production at their auto assembly plants was below the levels of this time last year. St. Louis reported that an auto manufacturer in its district will idle some of its plants in order to reduce inventories.

Construction and Real Estate

Most districts reported that new home sales stayed strong through the end of June. The Boston, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco Districts all reported rising new home sales in recent weeks. Reports from New York, Cleveland, and Richmond indicated that new home sales slowed in these districts but remained at high levels. Boston reported that higher-priced homes remained on the market longer in its district than they typically have. Cleveland and Minneapolis reported that sales in the lower-price parts of their markets slowed in May and June, though Kansas City reported that this was the strongest-selling market segment in its district.

Commercial construction continued to be weak throughout the country. St. Louis, an exception, said that commercial construction showed some improvement in most of its district. Commercial building in the Kansas City and Chicago Districts was characterized as flat, while activity in Minneapolis's district appeared mixed.

Banking and Finance

Most districts reported increases in borrowing in recent months. Commercial lending improved through the end of June, with the New York, Philadelphia, Cleveland, Richmond, Atlanta, St. Louis, Kansas City, Dallas, and San Francisco Districts reporting rising commercial borrowing in recent weeks. New York, Philadelphia, and Atlanta, however, noted that the increases in their districts were modest. In the Chicago District, commercial borrowing was characterized as flat.

In general, consumer borrowing also rose recently, but seemingly more moderately than commercial borrowing. Within the consumer borrowing category, five districts reported increases in their banks' residential real estate lending: Philadelphia, Cleveland, Richmond, Chicago, and St. Louis. Several of these districts indicated that although overall residential real estate lending had risen, the volume of refinancings fell further recently. Both the New York and San Francisco Districts saw borrowing by homebuyers decline, but San Francisco noted that the levels of residential real estate lending in its district remained high.

Natural Resources and Agriculture

Assessments of the agricultural sector varied according to weather conditions, but demand kept prices high for a variety of products. Cool or wet weather hindered crop growth in the Atlanta, St. Louis, Minneapolis, and Kansas City Districts. Outcomes were reported to be mixed by the Richmond District, as thunderstorms alleviated drought conditions but also caused wind damage. Favorable conditions were noted by Dallas and San Francisco. Cleveland noted that agricultural prices (beef, chicken, and milk) continued to rise for its food processors, while San Francisco noted high prices for beef cattle and other livestock, milk, berries, grapes, and nuts.

Activity in extractive industries remains at a high level. Minneapolis, Kansas City, and Dallas reported higher levels of activity at oil and gas drilling rigs. Minneapolis and Kansas City noted that equipment shortages (and labor as well in the case of Kansas City) were holding back exploration activities. Dallas cited a lack of domestic prospects as limiting drilling activity and noted that oil-field service companies reported excess capacity. Minneapolis also reported that mining activities in its district have been very strong.

Labor Markets, Wages and Prices

Most districts reported strengthening labor market conditions. Employment agencies reported rising demand for labor in the New York, Philadelphia, Richmond, Atlanta, Chicago, and Minneapolis Districts. Reports from other employers were more varied, but still positive, in most districts. The weakest employment reports were from Boston, Cleveland, and Dallas,

where reports of employment gains were either mixed (some industries up, some industries down) or relatively rare. Limited occupational shortages were reported in Boston, Cleveland, Chicago, Kansas City, and San Francisco. San Francisco reported the broadest areas of shortage: "skilled occupations in a number of industries, including construction, manufacturing, financial services, and technology services." Overall, however, districts reported only modest wage increases. Boston and San Francisco reported that rising health care costs are a continuing concern for businesses.

A wide variety of material input costs were cited as high and steady or rising by several districts, yet retail price inflation was typically reported to be moderate. All districts reported some form of higher input costs, but the degree to which these costs could be passed on varied by industry and district. Typical reports from manufacturers suggested that they have been unable to charge higher prices to fully offset increases in their input prices. For example Chicago reported, "While more manufacturers reportedly were adding surcharges to at least partially cover these higher costs, many others still said that competition prevented them from passing any cost increases on to their customers." The Cleveland, Atlanta, and Chicago Districts all reported material cost pressures in the construction sector. Atlanta reported that strong demand conditions had made it easier to pass on these higher costs, but Cleveland and Chicago reported that contacts had less success passing on cost increases in construction.

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