

**December 1, 2004**

Summary

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Summary

Districts

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Prepared at the Federal Reserve Bank of Dallas and based on information collected before November 22, 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.

Reports from the twelve Federal Reserve Districts generally paint a picture of continued economic growth from mid-October to mid-November, with a number of areas improving. Eleven Districts reported expanding economic activity, with New York, Philadelphia, Atlanta, and Dallas noting a pickup in the pace of expansion since their last reports. Minneapolis indicated that the expansion in that District was broad-based, and San Francisco described the region's activity as solid. The Richmond, Chicago, and Kansas City Districts saw moderate gains in economic activity while St. Louis viewed the gains there as modest. Only the Cleveland District reported little change in economic activity.

Overall consumer spending was uneven since the last Beige Book, with only a few Districts reporting stronger retail sales and many noting mixed, flat or slower sales. Automobile sales were flat to down across most Districts, and several Districts reported higher dealer inventories than desired. In contrast, manufacturing and service sector activity increased across the country. Residential real estate activity generally remained at high levels, but continued to show signs of cooling in a number of Districts. Nonresidential activity, while still sluggish in many areas, appeared to be turning the corner in several Districts. In credit markets, business lending was strengthening, but the pace of consumer and mortgage lending was mixed across the country. Contacts in the securities industry reported increased inflows into stock mutual funds and noted a pickup of stock issuance and merger-related activity. Many agricultural producers across the country said they were looking forward to large or record crop production. Energy-related activities remained strong.

Consumer Spending

Consumer spending was uneven from mid-October to mid-November. Retail sales increased in the Atlanta, Kansas City, Minneapolis and Philadelphia Districts and were "solid" in the San Francisco District. Sales were mixed in the Boston and Dallas Districts but were sluggish or lower in the Chicago, New York, Richmond, and St. Louis Districts. Retailers in the Dallas, Kansas City and New York Districts reported that demand for premium merchandise has been noticeably stronger than that for lower-priced lines, with some contacts suggesting that lower-income households might have been more greatly affected by high energy prices. Inventories appear to be in line with sales, with only the Boston District reporting that retail inventory levels were up slightly.

Automobile sales were flat to down across most Districts. The Chicago, Cleveland, Dallas, Kansas City and San Francisco Districts reported that dealer inventories were higher than

desired.

Manufacturing

Manufacturing activity increased across the country. Nine Districts reported a pickup in production, with only the Cleveland, Richmond, and San Francisco Districts noting that activity was unchanged or expanding more slowly than was reported in the last Beige Book. Overseas competition continued to weigh on several industries, but a number of reports noted increased capital investment and hiring. Manufacturers remained concerned about high energy prices and rising prices for other inputs.

Orders were strongest for chemicals, food, and products to supply the aerospace, agriculture, energy, medical, defense and construction industries. Both the Chicago and San Francisco Districts noted a pickup in bookings for machine tools. The Chicago and Cleveland Districts reported some slowing in domestic steel production, in part because of imports. Furniture production weakened in the Boston, Philadelphia, and St. Louis Districts, but turned up in the Richmond District. Richmond also reported that the textile business was unseasonably slow, but demand for apparel and textile products was reported as "robust" in the San Francisco District and up from three months ago in the Dallas District.

Transportation manufacturing was mixed. The Chicago District reported new orders for heavy trucks were "at extremely strong levels," with production constrained by shortages of engines and other parts. Slowing demand for automobiles and auto parts were seen in the Chicago, Cleveland, Philadelphia and St. Louis Districts. At the same time, the Atlanta District reported a recent announcement of additional auto parts manufacturing plants.

Conditions in the high-tech sector also were mixed. The Boston District reported a considerable softening of orders for semiconductors and related equipment in the third quarter. In the San Francisco District, sales and orders were unchanged for semiconductors and other high-tech products, which led to rising chip inventories and a slight drop in capacity utilization. In contrast, the Dallas District noted continued growth in production and orders for high-tech products.

Services

Service sector activity was strong or increasing among the Districts reporting on that sector. Tourism activity was slightly improved across much of the nation. Demand for workers at temporary employment agencies picked up in the Boston, Chicago, Dallas, Richmond and New York Districts. Shortages of temporary workers were reported in the Boston and New York Districts, and the Boston, Chicago, and Dallas Districts reported an increase in the number of temporary workers obtaining more permanent positions. Business activity sped up at software and information technology services firms in the Boston District, while demand for legal and accounting services was reported as strong in the Dallas District.

Demand for transportation services was reported as robust. Shipping firms in the Cleveland and Richmond Districts increased rates to offset higher fuel costs. Seaports in the San Francisco District continued to handle very high volumes, with delays developing at some ports. Prices for ground and sea transport were rising in response to bottlenecks.

Construction and Real Estate

Residential real estate activity was still robust in late October and early November, although some signs of cooling were noted by the Atlanta, Chicago, Cleveland, Dallas, Kansas City, Richmond and San Francisco Districts.

Commercial real estate markets remained weak, with high vacancies and low--even falling--rents. Nevertheless, several Districts noted that levels of excess capacity continued to ebb. Districts reported that nonresidential construction continues to be at low levels. However, leasing activity was up in the Dallas and Richmond Districts. The Atlanta and Minneapolis Districts noted lower commercial vacancy rates, and San Francisco District contacts indicated that office and industrial vacancy rates were edging down. In contrast, the New York District reported weakening in commercial markets, where strong leasing activity was outpaced by an increased availability of space.

Banking and Finance

Overall lending activity was mixed, and credit quality remained good across the nation in the past few weeks. Business lending firmed in a number of areas, but residential mortgage lending and refinancing activity softened further. Lending overall increased in the Philadelphia and Richmond Districts, slowed slightly in the New York District, and was "well below expectations" in the Chicago District. The Kansas City and San Francisco Districts reported little change in loan demand, with the latter District noting that loan demand was "solid." Deposit growth picked up in the Cleveland, Dallas and New York Districts, with no reports of changes elsewhere.

Demand for commercial loans strengthened in many Districts, but the Atlanta District noted that commercial loan demand remained at low levels overall.

Reports on consumer lending were more mixed. Chicago and Philadelphia District bankers said demand increased slightly for household loans, with notable gains in home equity lending in the Philadelphia District. Consumer loan demand continued to be strong in the Atlanta District, and was "steady" in the Cleveland District. On the other hand, lending declined in the Kansas City and New York Districts.

Residential lending was also uneven across the country. Demand for mortgages slowed in the Dallas, New York, and San Francisco Districts, but picked up in the Chicago and Philadelphia Districts while remaining flat in the Kansas City and Richmond Districts. Refinancing activity slowed in the New York, Philadelphia, and San Francisco Districts and remained light in the Richmond District.

Overall credit quality remained unchanged or improved. Credit quality improved in the Chicago District, and continued to be good in the Atlanta, Cleveland, Philadelphia and San Francisco Districts. The Kansas City, New York and Richmond Districts reported little or no change in credit and/or lending standards.

The New York and Philadelphia Districts reported a noticeable pickup in the securities industry since the last Beige Book report. In the Philadelphia District, investment companies and stockbrokers have received strong cash inflows, and some securities firms are raising staffing levels. The New York District saw increased inflows into equity mutual funds, and the investment banking community reported a pickup in stock issuance and especially in merger and acquisition activity.

Agriculture and Natural Resources

Recent wet weather delayed field work in many areas, but large or record crop production is anticipated by farmers across much of the country. Above-average quality and yields, especially for corn and soybeans, were reported by producers in the Richmond and Chicago Districts as well as in the Kansas City District, where agricultural lenders anticipate farm income to set record highs this year. The Minneapolis and St. Louis Districts also reported favorable yield and production estimates. A record cotton crop is anticipated in the Dallas

District, and estimates of cotton production were revised up in the Atlanta District. The hurricanes seriously affected production of several Florida crops.

In the Chicago District, livestock producers were benefiting from lower feed costs. The Dallas District reported strong demand for calves and feeder cattle. Ranchers in the Kansas City District remained reluctant to expand herds.

Energy activity remained strong, but the pace of growth was mixed. Oil field activity was up in the Minneapolis and Dallas Districts and at full capacity in the San Francisco District, but the Kansas City District reported a slight easing since the previous survey. Several oil and gas pipelines in the Gulf of Mexico remained off-line because of storm damage.

In the Kansas City District, "About half of the contacts continue to report constraints on drilling due to labor and equipment shortages. Absent these constraints--which are expected to persist for at least another six months--contacts believe drilling could increase by 10 to 20 percent." The Dallas District noted potential for continued expansion in oilfield equipment manufacturing, oilfield construction, shallow offshore drilling and some oilfield services, but also saw shortages of steel products in the oil patch.

Iron ore mines in the Minneapolis District were producing at capacity, with capital expansion under way. In addition, other mining companies were expanding and investing in capital equipment in Montana.

Prices

Increased cost pressures were reported by firms across the country, particularly for energy, transportation, food and petroleum-based products. While competition limited the ability of producers to pass higher costs forward, several Districts noted that some industries were successful in passing along cost increases. For example, the Chicago District reported that an increasing number of firms were able to pass higher input costs along to their business customers. The Boston District reported that customers had become more tolerant of price increases that were attributable to rising materials and energy costs.

Retailers have been less successful passing along cost increases than manufacturers, with most Districts reporting little change in retail prices. Contacts in the Boston and Chicago Districts posted some price increases at restaurants to offset higher food costs. Automobile dealers in several Districts have increased their use of rebates, promotions and sometimes substantial incentives. Makers of IT products in the San Francisco District reported additional price declines for some of their goods and services, including an acceleration of price declines for some types of semiconductors.

Continued cost increases for some building materials were reported in the Atlanta, Cleveland, Kansas City, Minneapolis, New York, Richmond and San Francisco Districts. Cement has been in short supply, and prices have risen for both concrete and cement. Steel prices also rose. While construction-related steel shortages eased in the Chicago and San Francisco Districts, there were reports of shortages of specialty steel in several Districts.

A slight cooling in the pace of home sales dampened home price increases in some markets. Home prices in the Dallas District softened further since the last Beige Book. The New York District reported that while housing demand remained strong, prices had leveled off in parts of New Jersey. A slight slowdown in home sales led to some moderation in home price appreciation in the San Francisco District. Home prices were up slightly in the Kansas City District and continued to rise at a steady pace in the Philadelphia District.

Solid U.S. production pushed down prices for corn, soybeans and cotton, but significant crop damage in Florida pushed up prices for tomatoes, peppers and other key Florida crops. Contacts in the Chicago District were concerned that higher fuel and fertilizer costs would partly offset gains in farm income.

Labor Markets

Labor markets continued to improve over the past few weeks, with numerous reports of hiring. The Atlanta, Chicago, Kansas City, Minneapolis and New York Districts reported increased hiring or improved labor markets. Contacts in several Districts noted difficulty finding workers for specific occupations, such as accounting, construction and skilled professionals in the energy industry.

There continued to be little wage pressure in most Districts, although a few Districts noted that higher benefit costs are pushing up total compensation. Only the Chicago District reported that overall wages increased at a slightly faster pace. Temporary employment firms in the Boston and Dallas Districts expressed concerns about cost increases, particularly for medical, worker's compensation and state unemployment insurance, and said they were attempting to pass these cost increases on to customers.

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