



March 9, 2005

Summary

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Summary

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Prepared at the Federal Reserve Bank of New York and based on information collected on or before February 28, 2005. 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 the economy has continued to expand at a moderate pace since the last report. All twelve Districts indicated that economic activity has increased, though Richmond reported some deceleration in the pace of growth, while Dallas noted some acceleration. Relatively brisk growth was reported in the New York and San Francisco Districts.

Consumer spending was steady to up moderately, with a number of Districts noting sluggish auto sales. Retailers were mostly satisfied with current inventory levels and were generally optimistic about the outlook. Travel and tourism activity were characterized as strong, with a few exceptions. Reports from most other service industries also showed improvement. Nearly all Districts reported continued expansion in manufacturing activity. Housing markets and residential construction activity were described as robust in most areas, but commercial real estate markets were mixed. Most Districts reported little change in overall loan demand, though a few indicated some pickup.

Labor markets strengthened in almost all Districts; while wages continued to increase at a moderate pace, employers in many Districts reported ongoing pressures from higher benefit costs. Many Districts reported increased difficulty in locating skilled workers for at least some industries. A number of Districts reported increases in prices for manufactures and materials, but others noted some easing of input costs; prices of consumer goods and services were mixed but relatively flat, on balance.

Consumer Spending and Tourism

Consumer spending has been steady to somewhat stronger since the last report. Overall retail sales strengthened in Boston, Philadelphia, Atlanta, Minneapolis, Kansas City, and Dallas. However, sales were reported to have been little changed in the other Districts. A number of reports from retailers indicated that apparel sold well, but others noted weak sales of electronics and big-ticket items. Automobile sales have been steady to softer in early 2005. Vehicle sales weakened in Richmond, Kansas City, Dallas, and San Francisco, while sales were said to be mixed in Cleveland, St. Louis, and Minneapolis. The Philadelphia, Atlanta, and Chicago Districts reported that auto sales picked up in February, after a sluggish January. Overall, retail inventories were said to be at satisfactory levels, though automobile inventories were said to be on the high side in Philadelphia, Chicago, St. Louis, and Dallas.

Tourism showed increased strength in most Districts, though a few reported that activity was hampered by unfavorable weather. Robust tourism activity was noted in New York,

Richmond, Atlanta, Kansas City, and San Francisco; New York attributed some of the strength to the Central Park "Gates" exhibit, Richmond cited unseasonably warm weather, and Atlanta noted some positive effect from the weaker dollar. On the other hand, Boston and Minneapolis indicated some softness in tourism, partly attributed to an unusual geographic distribution of winter snow.

Services

Activity in service-sector industries showed signs of strengthening since the last report. Boston, St. Louis, and San Francisco reported some pickup in demand for information technology services. New York reported strong conditions in the securities industry, and Dallas noted brisk demand for accounting services. Widespread strength was evident in the trucking and shipping industries: conditions were described as robust in Cleveland, Atlanta, St. Louis, Dallas and San Francisco, and steady in Richmond. Conditions in the airline industry were mixed: Dallas reported weak conditions, while Chicago noted strong demand from business travelers, but some softness in the domestic leisure segment. More broadly, St. Louis and San Francisco cited general increases in service-sector activity, while Richmond reported that conditions were stable.

Manufacturing

Manufacturing activity was reported as expanding solidly in most Districts, although the pace of growth has generally not increased since the last report. Many Districts noted particularly strong gains in durable goods manufacturing. Defense-related production was reported as strong in the Boston, Atlanta, Kansas City, and Dallas Districts; machine tool production was described as solid by several Districts; vehicle production remained at a high level, in part because of the strength in demand for heavy trucks; and construction materials were in high demand. Steel shipments softened in Cleveland, but were reported as solid in Chicago; Cleveland cited surging steel imports, whereas Chicago saw imports decline. High-tech manufacturing activity was reported as growing in the Dallas and Boston Districts but mixed in San Francisco, where the semiconductor industry showed strength but the telecommunications industry remained weak.

Sustained increases in the cost of energy, steel, and other materials were widespread. However, some moderation in the pace of cost increases was reported by the New York, Philadelphia, and Cleveland Districts, with a faster rate of increase noted only by the Richmond District. A recent drop in energy prices was cited by some Districts as helping to stabilize input price increases. The weaker dollar reportedly has stimulated exports in the Atlanta District, although some Districts cited the dollar's decline as exerting continuing upward price pressures on imported inputs. Several Districts noted that their manufacturing contacts were optimistic that the coming year would bring continued growth, with some seeing expansion of factory headcounts.

Real Estate and Construction

Home sales markets remained strong across most of the nation. New York, Philadelphia, Richmond, Atlanta, Chicago, St. Louis, and San Francisco continued to describe housing markets as robust. However, mixed conditions were reported in Cleveland, Minneapolis, Kansas City, and Dallas. The market for apartments was characterized as soft in Dallas, mixed in Chicago, but strong in New York. Home construction has been particularly brisk in the San Francisco and Atlanta Districts, whereas Minneapolis, Kansas City, and Dallas indicated some pullback.

Commercial real estate markets were, on balance, stable. Office markets were steady in Boston, New York, Philadelphia, Richmond, St. Louis, and Dallas, with Boston and Dallas noting substantial ongoing slack in the market. On the other hand, some firming was reported

in the Atlanta, Minneapolis, Kansas City, and San Francisco Districts. Philadelphia, St. Louis, and Minneapolis reported some pickup in the market for industrial space, but Boston, New York, and Richmond reported steady to somewhat softer markets. Richmond noted a slight decline in retail vacancy rates.

There were scattered reports of increases in commercial construction activity. Philadelphia reported an increase in industrial building, Cleveland reported a pickup in retail construction, and Richmond noted two major office projects in the pipeline. Some general, albeit modest, increases in commercial construction were also reported in Chicago, St. Louis, and San Francisco.

Banking and Finance

Banks reported steady to somewhat stronger lending activity in early 2005. The Philadelphia, Cleveland, and Richmond Districts noted increases in overall loan demand. Rising demand for commercial mortgages was reported in New York, Cleveland, Richmond, and Kansas City, while San Francisco described demand as slowing but strong; Dallas, however, noted an increase in commercial property foreclosures. Business lending also strengthened in a number of Districts, but the reports on household loan demand were mixed, suggesting little change, on balance, for both consumer loans and residential mortgages. Home equity lending strengthened noticeably in the Philadelphia and Cleveland Districts but slipped in Kansas City.

Credit standards were unchanged across the board, and loan quality was widely described as steady and strong. Contacts in Chicago, Dallas, and San Francisco indicated that the lending environment was highly competitive, leading to narrowing margins, while contacts in Dallas expressed some concern about excessive supply of funds available to commercial mortgage markets.

Agriculture and Natural Resources

Above-average rainfall and moisture levels were reported in several Districts, which created a mix of favorable and unfavorable conditions. In the Dallas, Kansas City, and St. Louis Districts, heavy precipitation helped planting conditions for the winter wheat crop but proved problematic for other crops. Improved conditions for livestock grazing were reported in the San Francisco, Dallas, and Kansas City Districts. Atlanta's citrus industry continued to suffer from the after-effects of last year's hurricanes, as well as disease.

Activity in the energy industry was reported as buoyant and optimistic, given the continuing pattern of higher energy prices. The Dallas and Kansas City Districts reported an increase in active rigs since the last report. Capacity in the industry is being strained by labor and equipment availability, although activity is expected to continue to improve.

Labor Markets

Labor markets across the nation have been steady to stronger since the last report. Ongoing improvements in labor market conditions were reported in Boston, New York, Atlanta, and Minneapolis, and hiring activity has picked up recently in Richmond, Chicago, and Kansas City. Brisk gains in temporary employment were seen in Boston, Richmond, Atlanta, and Chicago, while, in Dallas, these job gains fell short of expectations.

Manufacturers were reported to be raising employment in the Boston, Philadelphia, Cleveland, Chicago, and Minneapolis Districts. On the other hand, manufacturing employment has been steady to lower, on net, in Atlanta, St. Louis, and Kansas City. A number of industries have seen tightening labor markets across several Districts. Increased labor demand was reported in financial services (Boston, New York, Kansas City, and

Dallas), legal services (New York, Minneapolis, and Dallas), and freight transportation and distribution (Cleveland, Richmond, St. Louis, and Kansas City). There were also reports of scattered skilled labor shortages in many Districts. New York and Cleveland noted a dwindling supply of skilled workers to fill job openings generally; and a number of other Districts reported shortages of skilled job applicants in specific industries, such as trucking, shipping, construction, energy, health care, and media.

Overall wage increases were characterized as moderate in all Districts. Still, a number of Districts cited larger wage gains in certain industries, including securities (New York), trucking (Cleveland and Kansas City), legal services (Minneapolis and Dallas), pharmaceutical services (Kansas City), and accounting (Kansas City and Dallas). Reports of ongoing sharp increases in benefit costs, particularly health insurance, were fairly widespread.

Prices

Retail prices were generally flat or up modestly; however, businesses continued to face rising input costs, and a number of Districts indicated greater ease in passing along price increases. Prices for finished goods were reported to be increasing modestly in Richmond and Minneapolis, but almost all of the other Districts characterized retail prices as flat. Cleveland and Chicago reported that motor vehicle prices were being reduced by increased incentives and discounts. A number of Districts also noted ongoing declines in apparel prices.

Despite the stability in consumer goods prices, manufacturers in a number of Districts--including Boston, Cleveland, Kansas City, and Dallas--indicated that they have been finding it increasingly easy to pass along price increases; Philadelphia producers anticipated greater ability to boost prices in the near future. Also, truckers in the Cleveland and Atlanta Districts indicated that they have been offsetting rising fuel costs with surcharges.

A number of Districts reported persistent pressures on input costs, though some noted that these have eased since the last report. Firms in Boston, Richmond, Atlanta, Minneapolis, Dallas, and San Francisco reported sizable increases in prices of various raw materials. The most commonly mentioned were construction materials (especially steel) and fuel. Quite a few Districts also mentioned continued rapid escalation in health insurance costs, though San Francisco indicated that these have decelerated. More generally, New York, Cleveland and Chicago indicated that input cost pressures have abated somewhat since the last report.

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