



June 15, 2005

## Summary

[Skip to content](#)

### Summary

#### Districts

[Boston](#)

[New York](#)

[Philadelphia](#)

[Cleveland](#)

[Richmond](#)

[Atlanta](#)

[Chicago](#)

[St. Louis](#)

[Minneapolis](#)

[Kansas City](#)

[Dallas](#)

[San](#)

[Francisco](#)

[Full report](#)

Prepared at the Federal Reserve Bank of Atlanta and based on information collected before June 6, 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.

Reports from all twelve Federal Reserve Districts indicate that business activity continued to expand from mid-April through May. Most Districts--including New York, Richmond, Atlanta, Chicago, Minnesota, Kansas City, and San Francisco--characterized the pace of expansion as moderate, solid, or well-sustained. However, Philadelphia noted that the pace of growth had eased in May while Boston and Cleveland observed some unevenness across sectors.

Retail activity was mixed. Several Districts reported disappointing May retail sales results and cited unseasonable weather as the principal reason. A few reports mentioned that high gasoline prices were having a negative impact on sales. Almost all reports on other service industries were quite positive. Residential real estate markets remained strong in most Districts, and several Districts reported improving commercial real estate conditions. Most Districts reported that manufacturing activity continued to expand overall, although some reports described varying conditions across industries.

Labor markets improved in most Districts. Overall price pressures were moderate, but several reports noted concern over high fuel, transportation, and building materials costs.

### Consumer Spending

Reports on retail sales in April and May were mixed. Richmond reported that May sales and store traffic picked up markedly, and Kansas City noted that consumer spending expanded solidly in April and May. St. Louis, Minneapolis, Dallas, and San Francisco also reported gains in consumer spending. Sales were characterized as mixed by merchants in Atlanta and Cleveland and as having edged down in the Philadelphia District. Chicago retailers described sales as subdued, and those in New York reported sales as soft. Boston, New York, Cleveland, Philadelphia, Atlanta, Chicago, and Minneapolis noted that unseasonable weather had dampened sales in May. In addition, Cleveland, Philadelphia, Kansas City, and Dallas said that high gasoline prices had a negative impact on retail sales.

Automobile sales were reported as mixed by Atlanta, Kansas City, Chicago, and Dallas, sluggish in Cleveland, and down in the Philadelphia, Minneapolis, and St. Louis Districts. Meanwhile vehicle inventories were above desired levels according to Chicago, Philadelphia, and Dallas. Dealers in the Philadelphia area boosted leasing promotions to lower some excess inventories. Atlanta and San Francisco noted that high gasoline prices were having a negative impact on sales of SUVs and light trucks.

## **Services and Tourism**

According to most reports, industries in the service sector continued to display solid growth in April and May. Dallas reported that the transportation industry continued to experience strong demand conditions, but also noted concerns about high fuel costs. San Francisco reported that demand for media and high-tech services strengthened and that activity among transportation, food, and healthcare service providers remained vigorous.

Reports from the tourism and hospitality industry remained positive. Tourism remained exceptionally strong in New York City. Manhattan's hotel occupancy rate was more than 2 percentage points higher in April than a year ago and average room rates were up 17 percent. Richmond said that hotel bookings at coastal hotels for the Memorial Day weekend were somewhat stronger than a year earlier and that rapidly rising demand for hotel rooms in the nation's capital drove room rates sharply higher in recent months. Atlanta also noted that hotel and resort occupancies were at high levels. St. Louis reported strong sales and employment gains in the hospitality services industry, and San Francisco reported that the travel and tourism sector continued to surge. Spring tourism was flat because of cool weather according to Minneapolis, but tourism officials remained optimistic about the summer season.

## **Construction and Real Estate**

Reports on residential real estate markets remained quite positive overall, although some slowing in activity was noted in a few markets. Philadelphia and Atlanta reported that home sales were brisk and strong, respectively. St. Louis reported that home sales continued to rise, while Kansas City and Chicago stated that activity remained solid. San Francisco reported that home sales continued to be rapid, although growth slowed somewhat relative to previous periods. Richmond and New York said that housing markets remained strong, but both noted some easing in demand in high-end markets. Minneapolis described real estate markets as mixed. New home sales weakened slightly, according to Cleveland, and Dallas noted that in some parts of the District the supply of new homes had outstripped demand. St. Louis and Minneapolis cited permit data that indicated some moderation in construction is likely.

Several Districts reported improvements in commercial real estate markets. New York and Dallas saw signs of strengthening activity, with office vacancy rates retreating in several local markets. Leasing activity has been fairly strong, according to Philadelphia, and Richmond noted that rents firmed and new construction has increased. Atlanta saw solid improvements as firms moved forward with expansion plans; development also increased at a steady pace in Cleveland and Chicago and continued to improve in San Francisco. Modest improvements were noted by Kansas City and Minneapolis. However, St. Louis reported that commercial markets were mixed, and Boston noted that local markets continued to struggle.

## **Manufacturing**

Most Districts reported that manufacturing activity continued to expand, although several Districts noted that production had slowed or leveled off. Atlanta and San Francisco reported that defense contracts had generated new orders for local manufacturers, while Boston and San Francisco cited strong demand for aircraft-related and computing equipment. Durable goods production was improving, according to Minneapolis and Cleveland, although Cleveland noted that steel production was softer. Boston and Dallas described manufacturing activity as mixed overall, and the pace of expansion, although positive, had reportedly slowed in some industries, according to San Francisco, Chicago, and Philadelphia. St. Louis, Boston, Minneapolis, and Chicago cited varying degrees of weakness in vehicle production, although Cleveland reported year-over-year gains in auto production in the two-month period ending in May. Several reports noted that manufacturing firms are planning to increase capital spending, open or expand plants, and increase operations to meet expected demand. The

majority of Districts reported manufacturer concerns regarding higher input prices, especially in energy-related goods.

### **Banking and Finance**

For most Districts reporting on financial services, the demand for loans either increased or remained solid. Most Districts cited increases in commercial lending activity, although Richmond noted a slower pace in some areas. Philadelphia linked new commercial borrowing to rising capital expenditures by firms in a wide range of industries. Atlanta and Chicago reported stronger consumer loan demand, but St. Louis and New York reported some slowdown, and Cleveland described activity as mixed. Residential real estate lending was described as rising or remaining solid in most Districts. Dallas reported some concern about a potential glut in multi-family residential properties. Other banking indicators were holding steady or improving, and credit quality was described as good.

### **Labor Markets and Prices**

Labor market conditions continued to improve in most Districts, and several reports cited difficulty finding specific types of workers. For instance, Dallas reported a shortage of skilled workers in the energy industry, while Atlanta and San Francisco noted similar shortages in construction. Cleveland reported that manufacturing firms had difficulty obtaining qualified applicants for job openings. San Francisco described tighter supply conditions in nursing and financial service professions. The demand for temporary workers strengthened in the Richmond, New York, and Atlanta Districts, while Chicago noted a small decline from a year earlier. San Francisco and Dallas reported rising wages, mainly in professional services, while Minneapolis noted only modest increases in wages.

Reports from most Districts indicated that price increases at the retail level remained modest overall. San Francisco noted that price inflation for final goods and services edged up, largely because of the pass-through of earlier increases in energy costs. Several Districts noted increases in transportation and healthcare costs. Prices were up for construction-related materials, such as lumber, cement, brick, tile, and glass in many Districts. Some Districts noted that manufacturers were unable to pass along rising costs of raw materials because of the presence of long-term contracts and competitive pressures from foreign producers. However, Cleveland reported that firms have had some success in passing input cost increases along to their customers.

### **Agriculture and Natural Resources**

Despite less-than-ideal weather, crop conditions were described as between fair and good for most reporting Districts. Cold weather slowed plantings and crop development, according to Richmond and Kansas City. Also, heavy rains in California's central Valley region damaged some fruit crops. Dallas and San Francisco noted concerns over higher costs of fuel and fertilizers.

Activity in the energy industry has remained strong especially for oil field services. Dallas reported strong drilling activity, long backlogs, and a dearth of skilled workers. San Francisco and Minneapolis reported that producers were operating at or near full capacity. Kansas City noted that drilling firms expected moderate expansion of drilling activity in the months ahead.

 [Return to top](#)

[Boston](#) 

**Last update: June 15, 2005**