



September 7, 2005

Summary

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Summary

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Prepared at the Federal Reserve Bank of Minneapolis and based on information collected before August 29, 2005 and, thus, before Hurricane Katrina made landfall on the Gulf Coast. This document summarizes comments received from business and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Economic activity increased across the nation from mid-July through August, except in the Boston District, where activity was mixed. The growth was widespread as retail sales, services, finance, construction, manufacturing, mining, energy, and tourism all expanded. A few Districts reported softening in residential real estate markets, albeit from still brisk levels of activity, while commercial real estate markets strengthened in most Districts. Lending activity increased, and credit quality was stable. Conditions in the agricultural sector improved slightly, with late summer rains somewhat alleviating the effects of drought. Meanwhile, labor markets showed signs of tightening with modest wage increases. Except for energy, overall consumer price increases were modest. Most Districts reported significant price increases in certain commodities and energy products, especially gasoline.

Consumer Spending

Most Districts saw an increase in retail sales. Minneapolis described sales as improving and strengthening, while sales were above year-ago levels in the Atlanta, Boston, and St. Louis Districts. Kansas City, Richmond, and San Francisco variously described consumer spending as expanded, brisk, or solid. Meanwhile, retail sales were about level with a year ago in New York and Philadelphia, and consumer spending was mixed in Dallas and weak in Cleveland. Back-to-school sales were strong in Kansas City, but slow in Philadelphia. Several Districts reported that retailers expect sales to be negatively affected by higher fuel prices.

Vehicle sales were up in all Districts. Cleveland, Kansas City, Philadelphia, and San Francisco reported strong sales, and Atlanta and St. Louis described recent vehicle sales as rising or improved. Most Districts cited the effect of manufacturer discounts; however, Chicago and Dallas reported slower sales in August as "buyer fatigue" set in. Several Districts mentioned dealers' concerns that current high sales would come at the cost of lower sales in the near future. Atlanta, Minneapolis, and Richmond mentioned a shift in demand toward more fuel-efficient vehicles. A number of auto dealers indicated that inventories for new cars were low while stocks of used vehicles surged.

Tourism and Services

Tourism activity grew in most Districts. Atlanta, New York, Richmond, and San Francisco described tourism activity as strong, robust, or at high levels, while Kansas City and Minneapolis noted that activity increased from last year. Richmond noted that tourism in Washington, D.C., has recovered from September 11, 2001, and was on pace for a record year. The Chicago District reported that tourism in Michigan increased faster than expected,

while Minneapolis observed that tourism in Michigan's Upper Peninsula was flat from last year. Several Districts noted that bookings were up and that activity was expected to increase for the remainder of the season.

Contacts in other service businesses also noted growth in activity. Dallas and New York noted increased demand for temporary staffing services. Trucking and shipping businesses in the Cleveland and Dallas Districts reported an increase in activity; however, freight volumes slowed in the Chicago District. Meanwhile, railroad traffic in the Dallas District was generally up, with decreases in chemical, car, and appliance volumes. Sales for software and information technology services in Boston were generally up.

Manufacturing

Manufacturing activity increased in all Districts except Boston and St. Louis, where activity was mixed. New orders and production were up over a year ago. Nearly all Districts noted increased activity across a broad range of industry sectors. Atlanta, Chicago, and Dallas reported strong production in construction-related products. San Francisco indicated strong demand for semiconductors and that orders increased at commercial aircraft and defense product firms. However, Atlanta and St. Louis reported that auto parts and motor vehicle industries experienced net declines in activity, and Boston reported declines in the textile industry. Rising material and energy costs were a common theme across most of the nation.

Real Estate and Construction

Residential real estate was strong, with signs of softening in some markets. Dallas, St. Louis, and San Francisco reported increased activity, with Kansas City, New York, Philadelphia, and Richmond all observing strong sales, but signs of cooling were evident. Atlanta reported sales above last year's levels in Florida, but demand was beginning to soften. Chicago, Cleveland, Kansas City, Minneapolis, and New York reported residential construction was still strong but down from last year, while St. Louis described it as lagging.

Overall commercial markets grew. Most Districts described conditions as improving from weaker levels. Commercial real estate markets were strong in the New York and San Francisco Districts. Commercial construction activity increased in Cleveland, Dallas, Minneapolis, and St. Louis and was mostly flat in Boston, Philadelphia, and Chicago.

Agriculture

Overall, agricultural conditions improved somewhat across most of the nation. Minneapolis reported generally strong conditions. Atlanta, Chicago, Dallas, and Kansas City reported that August rains lessened the impacts of drought. Highly variable crop yields were expected because of the drought damage that had already occurred. Meanwhile, Chicago, Dallas, Richmond, and San Francisco reported that agricultural producers were facing higher energy and other input costs. Prices for most agricultural commodities were solid; however, Kansas City reported some softening of cattle prices.

Natural Resources Industries

The energy and mining sectors remained generally strong. San Francisco reported energy operations were running at near full capacity. Dallas, Kansas City, and Minneapolis reported strong production, exploration, and capital investment in energy, with reports of service firms having difficulty keeping up with demand and rapidly growing backlogs. Meanwhile, Atlanta reported that the approach of Hurricane Katrina had temporarily halted oil and gas production in the Gulf of Mexico. Mining activity was robust, as Minneapolis reported full production at mines and active interest in starting new operations.

Labor Markets

Several Districts reported signs of tightening in labor markets and some difficulty in finding workers for certain occupations. Atlanta, Dallas, Kansas City, Minneapolis, and San Francisco noted that labor markets tightened or improved, while demand for temporary employment was higher in Boston and Richmond. New York reported a step-up in hiring for the fall season. In St. Louis, hiring in manufacturing was mixed, while service sector hiring was up. Hiring in the manufacturing sector was limited in the Cleveland District. Atlanta, Boston, Dallas, Kansas City, and Richmond reported that some firms had difficulty finding qualified workers. Occupations mentioned include healthcare, accounting, information technology, trucking, energy, and construction-related trades.

Wages and Prices

Wage increases were generally modest, but a number of Districts noted pressure on benefit costs, such as health insurance. In the Kansas City, Minneapolis, and San Francisco Districts, wage pressure was described as up slightly, moderately, and modestly. Meanwhile, Dallas noted that pressure on salaries was growing, particularly for skilled workers, but that firms were resisting overall wage increases. Temporary firms in the Boston District noted concern about rising costs for unemployment and health insurance, while manufacturing and related services firms noted moderate wage and salary increases. In Kansas City, the percent of firms reporting wage pressures increased slightly from recent surveys. A contact in the Richmond District noted that companies were turning to temporary agencies to reduce costs of benefits and payroll administration.

Except for energy, overall consumer price increases were modest. Most Districts reported significant price increases in certain commodities and energy products, especially gasoline. Higher energy costs were reported by almost all Districts, and energy-intensive industries were able to pass some of these costs on to consumers in the Atlanta, Boston, Cleveland, Chicago, Kansas City, Minneapolis, Philadelphia, and San Francisco Districts. Dallas and Richmond noted that most industries had difficulty passing increased energy costs on to consumers. In addition, several Districts reported significant increases in certain manufacturing and construction input prices, including steel, chemicals, plastics, and cement. Decreased lumber prices were noted in Dallas, Kansas City, and Minneapolis. Retailers and hotels increased prices in the Kansas City District.

Banking and Finance

Most Federal Reserve Districts reported increased lending activity. Districts reported strong demand for commercial and industrial loans and mixed activity for residential loans. Atlanta, Chicago, Kansas City, and San Francisco reported higher residential loan demand, while New York, Philadelphia, and Richmond saw decreased demand for residential loans, and St. Louis indicated mixed demand. Meanwhile, deposits were up in New York and steady in Kansas City.

Credit conditions remained at high levels in Atlanta, Chicago, Cleveland, Richmond, and San Francisco and were unchanged in Dallas, Kansas City, New York, and St. Louis.

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