



October 19, 2005

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Summary

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Prepared at the Federal Reserve Bank of Philadelphia based on information collected before October 11, 2005. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a representation of the views of Federal Reserve officials.

Economic activity continued to expand in September, according to information received by Federal Reserve District Banks. Most Districts described the pace of activity as moderate or gradual. Richmond reported some quickening in the pace of growth while New York reported a slowdown. Atlanta reported mixed economic conditions, with significant negative effects on the District economy from hurricane damage. Dallas reported expansion overall but also experienced noticeable disruptions to the District economy as a result of Hurricanes Katrina and Rita.

Retail sales of general merchandise increased in most Districts, but a number of Banks reported that retail sales were either below plan or weak. Auto sales fell throughout the Districts. Tourism activity was mixed. Service sector activity continued to expand. Manufacturing advanced in all Districts except St. Louis and Atlanta. Commercial real estate markets continued to firm up. Residential real estate activity remained generally strong, but reports that demand for homes has eased have become somewhat more common. Agricultural conditions were viewed as mostly good. Mining and energy production increased except in the Gulf of Mexico, where damage to onshore and offshore oil and gas facilities is still being repaired. Bank loans and deposits rose.

Employment has been rising, and Federal Reserve Districts reported some tightening in labor markets. Wage increases have been moderate, although a number of Districts noted increased upward pressure on wages and salaries in the service sectors and for some skilled occupations in several industries. All Districts reported cost increases for energy, petroleum-based products, building materials, and shipping. Several Districts indicated that input cost increases are being passed through to retail prices.

Consumer Spending

Retail sales of general merchandise rose moderately in most of the Federal Reserve Districts in September, but other Districts reported some softness in the retail sector. Sales increased in Boston, Philadelphia, Cleveland, Richmond, Chicago, Minneapolis, Kansas City, and Dallas. Atlanta District retailers also had increased sales except in areas where hurricane damage forced stores to close. Retailers in New York and St. Louis reported that sales in September had not met their plans, and retail sales in San Francisco were said to have weakened somewhat. Retailers in many Districts noted that consumer confidence has ebbed as gasoline prices have risen.

Auto sales fell in the Districts that received reports from auto dealers. The drop came as manufacturers ended their discount programs. Sales of light trucks and large sport utility vehicles were reported to have declined sharply. However, within the generally slower sales environment, Atlanta and Dallas reported that sales of smaller, more fuel-efficient cars and hybrid vehicles were strong.

Reports on tourism and leisure travel were mixed. New York, Chicago, and San Francisco reported ongoing gains in tourism business and high rates of hotel occupancy. Richmond and Minneapolis reported slower tourism activity, although Minneapolis indicated an increase in business travel was boosting hotel occupancy. Tourism in Kansas City was said to be largely unchanged after a period of strong expansion. Tourism activity declined in Richmond, and fell in Atlanta as a result of hurricane damage in New Orleans and along the Mississippi Gulf Coast.

Services

Service activity expanded in almost all the Districts that reported on this sector. Health-care services expanded in Boston, St. Louis, and San Francisco. Professional and technical service business increased in Boston, Richmond, St. Louis, and Dallas. Philadelphia reported gains in business services and information technology services. Transportation activity was strong, according to New York, Philadelphia, Cleveland, St. Louis, Dallas, and San Francisco. Atlanta gave a mixed report on transportation: demand for shipping was said to be strong, but damage to port facilities and railroads was severely limiting capacity.

Manufacturing

Manufacturing activity rose in all Federal Reserve Districts except St. Louis, where manufacturers gave mixed reports, and Atlanta, where manufacturers along the Gulf Coast are still recovering from hurricane damage. There were noticeable increases in demand for food products in Philadelphia, Dallas, and San Francisco, but St. Louis reported decreased demand at food processors there. Increased demand for industrial equipment was noted by Chicago, St. Louis, and San Francisco. Boston and St. Louis reported increased demand for pharmaceuticals. Richmond's producers saw increased demand for chemicals and a variety of durable goods. Cleveland and Kansas City also reported increased demand for durable goods generally. Dallas and San Francisco cited increased demand for building materials, and Atlanta noted increased demand for manufactured housing as part of the rebuilding effort in hurricane-affected areas. Producers of metals and metal products reported rising demand in Cleveland, Richmond, and Chicago, but they reported slower demand in Philadelphia and St. Louis.

Real Estate and Construction

All the Districts reporting on commercial real estate conditions noted rising demand for office, retail, or industrial space. Increased demand for commercial space was reported by New York, Richmond, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. Cleveland and Richmond cited growing construction of commercial buildings. Atlanta reported a surge in demand for commercial space in areas where firms relocated after the hurricanes struck the Gulf Coast. Chicago indicated that demand for commercial space was rising in many parts of the District, although not in downtown Chicago. Office vacancy rates were declining in New York, St. Louis, Kansas City, and Dallas. San Francisco reported rising commercial rental rates. Chicago indicated that rents rose in areas other than downtown Chicago. Dallas reported that rents were holding firm but landlords were reducing incentives.

District banks gave mixed reports on residential real estate markets. Although levels of activity appeared to remain generally high, a number of Districts indicated that demand for housing was slowing in some regions. Residential real estate activity continued to expand in

Chicago, St. Louis, and Dallas, and remained strong in San Francisco. Richmond reported continued strength in housing construction, but indicated that demand was easing in some parts of the District. Minneapolis reported that home sales had slowed in some areas but were strong in others. Boston reported that homes were taking longer to sell, as did New York. Cleveland reported little growth in residential construction. Kansas City reported some easing in home sales and a growing inventory of houses for sale. Chicago also reported higher inventories of unsold homes on the market. Atlanta reported a strong increase in demand for housing in areas where evacuees from the coast were relocating, but indicated that demand for homes was moderating elsewhere in the District.

Agriculture

Agricultural conditions have been mostly good, but not uniformly so around the country. Atlanta received mostly positive crop and livestock reports, although the storms damaged at least half of the Louisiana sugarcane crop. Chicago reported that corn and soybean yields have been greater than expected. Crop yields in Minneapolis were up for most crops. Kansas City reported favorable harvest conditions and good progress in winter wheat planting. Less positive reports came from St. Louis, where the rain brought by the hurricanes damaged corn, rice, and cotton crops. Dallas reported that hot, dry weather in parts of the District has stressed crops, although cotton yields were high. Richmond reported that hot, dry conditions were hindering fall planting of winter wheat, rye, oats, and barley. Kansas City said that the transportation difficulties associated with the hurricanes hampered crop exports. Chicago also reported that transportation of grains was disrupted, and farmers were unable to obtain adequate storage space; As a result, crops were left in the fields or sold at lowered prices.

Natural Resources Industries

Districts reporting on the energy sector noted strong demand in the midst of supply constraints. The limits on supply are a result of hurricane damage to oil and gas production and refining facilities along the Gulf Coast and to shortages of drilling equipment and oilfield workers elsewhere. Atlanta reported that production in the Gulf remained severely disrupted, and that safety inspections and repair work continued. Kansas City saw an increase in the rig count, but indicated activity could have expanded further if more equipment and workers were available. Dallas also reported increased activity, but noted that the loss of rigs in the Gulf had cut oil and gas production, and that damage to staging areas on the coast was retarding the repair effort. San Francisco reported that producers of natural gas in that District were operating at or near full capacity. Minneapolis reported that mining and energy activity was steady at a high level.

Financial Services and Credit

Lending rose in most Federal Reserve Districts in September. Commercial and industrial lending advanced in Philadelphia, Richmond, Chicago, Kansas City, and San Francisco. Commercial and industrial loan demand was reported to be steady in New York and St. Louis, but business borrowing slowed in Cleveland. New York noted decreased demand for consumer loans and residential mortgages. Chicago and Kansas City reported an easing in demand for residential mortgages, but St. Louis reported gains. Dallas and San Francisco noted growth in lending in general. St. Louis, Kansas City, and Dallas reported growth in deposits. In the Atlanta District, small banks in areas devastated by the hurricanes are concerned that they will not retain their customer base if their market areas do not regain their resident populations. Competition for loans was reported to be very intense in most regions.

Employment and Wages

Federal Reserve Districts reporting on employment noted tightening in labor market conditions. Increased hiring was noted in a variety of industries. Boston reported increased demand for professional and technical service workers. New York cited stepped up hiring of

office workers, especially in the financial industry. Increased hiring in the financial sector was also reported by Chicago, Minneapolis, Dallas, and San Francisco. Philadelphia and Cleveland noted that trucking firms in their Districts were having difficulty attracting and retaining drivers. Dallas also indicated strong demand for truck drivers. Chicago reported increases in hiring at firms in the software and telecommunications industry and among chemical companies, but noted layoffs among manufacturers of motor vehicles, paper products, and communications equipment. St. Louis reported increased hiring in the lodging industry and the health care sector. Minneapolis and San Francisco reported hiring in the mining industry, and Kansas City and Dallas reported increased hiring in the energy industry. Richmond and Chicago noted an upturn in hiring at temporary staffing companies.

Atlanta reported significant problems resulting from dislocation of workers caused by the hurricanes. Temporary help agencies have been active in recruiting workers for disaster relief and cleanup operations. In locations outside the areas damaged by the hurricanes, employment centers have been established, and job fairs have been held to assist displaced workers find jobs. However, employers in the Dallas District have looked to evacuees to bring needed skills to the District labor pool.

Most of the Districts reporting on wages said recent increases have been moderate, and Kansas City indicated that wage pressures have edged down. However, Richmond noted that wages in the service sector have been increasing briskly, and San Francisco reported that wage pressures have risen noticeably for skilled workers in finance, construction, information technology, resource extraction, and health care. Employers in the Philadelphia District said their benefit costs have been rising steeply. San Francisco reported that employers there said their benefit costs have been rising faster than wages, but not as rapidly as in previous survey periods.

Prices

All Federal Reserve Districts reported a pickup in cost pressures from recent increases in the prices of energy, petroleum-based products, and shipping. Reports of price increases for building materials, such as cement, sheetrock, and lumber, were also widespread. These price increases have come largely in the wake of the recent hurricanes, as the supply of oil and natural gas has been disrupted and repair and rebuilding have increased the demand for construction materials. Nevertheless, many business firms indicated to the District Banks that they expect high prices for energy and construction materials to persist. In addition, New York and Kansas City reported a general escalation of costs for manufacturing inputs.

While a number of Districts noted increases in prices of final goods, others continued to report that those prices remain relatively stable. Chicago cited price increases for pharmaceuticals and air travel. In Richmond and Atlanta, retailers and other business firms reported passing their cost increases through into their selling prices, and in Philadelphia and Dallas, large numbers of business firms said they have raised, or plan to raise their prices. However, San Francisco reported that prices of final goods have remained stable, and Boston and Chicago said that the ability of businesses in their Districts to raise prices downstream was limited.

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