



January 17, 2007

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 Minneapolis and based on information collected before January 8, 2007. 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.

Most reports from the Federal Reserve District Banks indicated that economic activity expanded at a modest pace since the last report. The New York and San Francisco Districts reported moderate growth, while the Dallas District reported further deceleration from a high level of activity. The Minneapolis District reported slight growth. The Boston District characterized activity as mixed, and the Cleveland District saw softening activity.

Districts generally reported modest increases in retail sales, and vehicle sales were sluggish in several Districts. Tourism spending was up in a number of Districts. Reports on the service sector were generally positive; many Districts reported growth in technical, legal and information services. Manufacturing activity continued to expand in most Districts, with weakness reported mainly for products supporting the residential construction industry. Nearly all Districts reported a continued softening in housing markets, and high inventories of new homes have generally led to a slowing in residential building. In contrast to the housing sector, commercial real estate markets continued to see strong activity in most Districts. Lending activity was mixed, with commercial and industrial lending generally up while residential mortgage origination and refinancing continued to weaken. Overall weather conditions and high prices aided the agriculture sector. Energy production and exploration remained at high levels, and the alternative energy sector increased. Mining output grew.

District reports generally described labor market conditions as tightening and cited examples of some businesses having difficulty finding qualified workers. Despite expanded hiring, Districts reported relatively moderate gains in wages; however, some Districts noted certain business lines that experienced wage increases and have concerns about increases in the benefit portion of compensation. District reports indicated moderate price increases overall as prices for energy and a number of materials eased and competition kept prices for final goods in check.

Consumer Spending and Tourism

Districts generally reported modest increases in retail sales. Several Districts described retail sales increases as slight or moderate. New York reported that sales were on or slightly above plan in December. Dallas characterized retail sales growth as good, but not great. Retailers in the San Francisco District reported a generally solid performance for the holiday season. However, Boston, Cleveland and Kansas City described retail sales as mixed. New York, Philadelphia, Richmond and Chicago noted strong sales in electronics. New York, Philadelphia and Richmond reported soft apparel sales, particularly in outerwear due to warm

weather. In contrast, retailers in the Chicago and St. Louis Districts reported strength in apparel sales. Districts that commented on inventory levels described them as generally favorable or balanced, except for Boston, where several contacts reported higher-than-expected levels.

Vehicle sales were sluggish in several Districts. Philadelphia, Richmond, Atlanta, St. Louis, Minneapolis and Kansas City reported slow vehicle sales. Auto sales were mixed in the Cleveland District, while Dallas reported a pickup in sales and San Francisco described sales as moderate on net. Several reports noted that foreign car sales were stronger than domestic truck sales; however, a few reports indicated strength in SUV demand due to lower gas prices.

Tourism spending was up in a number of Districts. Boston, New York, Atlanta, Chicago, Kansas City and San Francisco provided positive assessments of tourism activity, while Richmond described activity as mixed and Minneapolis noted that tourism was in the doldrums in several areas due to a lack of snow. Tourism activity remained at high levels in most major markets in the San Francisco District, while tourism and travel exceeded expectations in the Boston metropolitan area.

Services

Activity in the services sector generally expanded in most Districts since the last report. Boston, New York, Philadelphia, Richmond, St. Louis and San Francisco reported growing demand for technical services, while Dallas reported that activity was slowing but strong overall. New York, Richmond and Dallas reported growing demand for legal services. Demand for information technology services increased in the Philadelphia, St. Louis, Dallas and San Francisco Districts, but was flat in the Richmond District. Growth in financial services was noted by the New York, Richmond and Dallas Districts. Trucking firms reported slower demand in the Philadelphia and Cleveland Districts, while Dallas saw greater demand for trucking and strong demand for rail transportation.

Manufacturing

Manufacturing continued to expand in most Districts. Boston, Philadelphia, Cleveland and San Francisco reported increased manufacturing activity, while slowing growth was reported by the Chicago, Minneapolis and Kansas City Districts. However, Atlanta reported mixed activity, while Richmond, St. Louis and Dallas reported some declines.

Strong demand for products used in the energy sector was noted by the Boston, Atlanta, Chicago, Minneapolis and Dallas Districts. Philadelphia, Dallas and San Francisco noted increases in food products. Boston, Cleveland, Atlanta, Chicago, Dallas and San Francisco reported continued weakness among manufacturers that support the residential construction industry.

Real Estate and Construction

Nearly all Districts reported a continued softening in housing markets. High inventories of new homes have generally led to a slowing in residential building, with some exceptions. While single-family construction weakened, New York saw multifamily permits on pace with a year earlier. In Cleveland, some builders reported a stabilizing market. Although Atlanta reported steep declines in Florida home building, activity was mixed in the rest of the District. Chicago saw smaller declines in construction than in the preceding period, with signs of recovery in the Chicago metro area. Minneapolis reported increased remodeling activity in several markets.

All Districts reported slow home sales, except for Richmond, which saw a modest increase. Decreases in home prices were reported by Boston, New York, Atlanta and Chicago, while Kansas City said prices were subdued. In contrast, Dallas reported modest price increases and San Francisco said homes were appreciating but at a slower pace. New York reported that Manhattan's co-op and condo market improved in the fourth quarter of 2006, with flat prices but higher sales volume. Dallas noted that the low-priced home market was slower than higher-priced segments. Realtors in San Francisco were offering significant incentives to sell properties. New York reported rent increases, while Dallas noted that apartment vacancies edged up in the cities of Dallas and Houston, largely due to an exodus of Hurricane Katrina evacuees.

In contrast to the housing sector, commercial real estate markets continued to see strong activity in most Districts. Cleveland, Atlanta, Chicago, St. Louis, Minneapolis and San Francisco saw increases in commercial building. New York reported that relatively little new office space was under construction in New York City, even though rents have increased and vacancy rates have fallen. Atlanta, St. Louis and Minneapolis reported growth in commercial real estate market activity, with Kansas City, Dallas and San Francisco also reporting increased office rents. Chicago saw an increase in office absorption across most of the District, with the exception of the Detroit area.

Banking and Finance

Lending activity was mixed, with commercial and industrial lending generally up while residential mortgage origination and refinancing continued to weaken. New York, Cleveland and Dallas reported decreases in overall loan demand, while Philadelphia, Richmond, St. Louis, Kansas City and San Francisco saw some increases. Demand for residential lending declined in the New York, Philadelphia, Atlanta, Chicago, Kansas City, Dallas and San Francisco Districts, while Richmond and St. Louis saw slight increases. Demand for commercial and industrial loans rose in the Philadelphia, Cleveland, Richmond, St. Louis, Kansas City and San Francisco Districts, was mixed in the Atlanta District and steady in the Chicago and Dallas Districts. Philadelphia saw an increase in credit card usage with a decline in other consumer loans, while Cleveland and Dallas saw consumer lending decrease. Overall credit quality remained good, but New York and Atlanta reported increases in consumer delinquencies and Chicago noted a small increase in mortgage delinquency. New York reported tightening standards for commercial and consumer loans.

Agriculture and Natural Resources

Most Districts reported upbeat agricultural conditions because of weather and high prices. Good weather conditions, which aided the sector, were reported by Richmond, Atlanta, St. Louis, Kansas City and Dallas. However, Minneapolis reported dry conditions, and Kansas City reported storms that adversely affected parts of the industry. High prices for many agricultural commodities were reported by Chicago, Dallas and San Francisco.

Activity in the energy and mining sectors remained at strong levels. Cleveland, Minneapolis, Kansas City, Dallas and San Francisco reported robust oil and gas activity. Cleveland and Kansas City noted some capacity constraints. Atlanta and Minneapolis reported growth in the alternative energy industry. Meanwhile, mining activity increased in the St. Louis and Minneapolis Districts.

Labor Markets

District reports generally described labor market conditions as tightening and cited examples of some businesses having difficulty finding qualified workers. Atlanta, Minneapolis and Kansas City noted expanded hiring or signs of tightening. Boston reported that engineering and machinist positions were especially hard to fill and that finance and accounting workers

were in great demand. In the New York District, hiring of office workers was strong, led by financial and legal services, but slower hiring was noted in manufacturing and distribution. Temporary employment agencies reported generally stronger demand for workers in the Philadelphia and Richmond Districts. In the Dallas District, labor markets remained very tight, with numerous firms continuing to report difficulty finding skilled and unskilled workers. Meanwhile, Cleveland noted that retail hiring was about the same as a year ago.

Despite expanded hiring, Districts reported relatively moderate gains in wages; however, some Districts noted certain business lines that experienced wage increases and had concerns about increases in the benefit portion of compensation. Boston, Philadelphia, Cleveland, Chicago, Minneapolis, Kansas City and San Francisco described wage increases as moderate or continuing at rates similar to those in the preceding reporting period. However, Boston, Philadelphia, Cleveland, Dallas and San Francisco mentioned higher increases for benefit costs, particularly health care. Dallas reported that many contacts said high and rising labor costs, including the cost of health insurance, top their list of concerns for the coming year. A contact in the Chicago District said that salaries for executives were "vigorously competitive."

Prices

Overall prices increased moderately. Prices for energy and a number of materials have eased, and competition has kept prices for final goods in check. Atlanta, Chicago, Minneapolis and Kansas City described price pressures as easing or moderating. Manufacturers in the Boston and Cleveland Districts reported that input prices were stable, although contacts noted some increases in metal prices. Meanwhile, manufacturers in the New York District indicated some increases in input price pressures. Retail prices were steady in the New York, Atlanta and Dallas Districts, but were edging up slightly in the Richmond District. Philadelphia noted that reports of price increases at business firms were not as widespread as they were earlier in the fall. Dallas described price pressures as mixed, while San Francisco said final prices rose at a modest pace.

[▲ Return to top](#)

[Boston ►](#)

[Home](#) | [Monetary Policy](#) | [2007 calendar](#)

[Accessibility](#) | [Contact Us](#)

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