



April 25, 2007

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Summary

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Prepared at the Federal Reserve Bank of St. Louis and based on information collected before April 16, 2007. 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.

Most Federal Reserve Districts noted only modest or moderate expansions in economic activity since the previous report, however two--New York and Minneapolis--reported steady and firm growth, respectively, and Dallas characterized growth as moderately strong.

Reports on retail sales across the Districts were generally positive, although vehicle sales were mixed in several Districts. Most Districts reported that manufacturing activity was slow, with many reports of weakening among manufacturers that support the residential construction sector. Economic activity in the services sector continued to increase across most Districts, especially for firms serving business customers. Tourism activity was generally positive. Residential real estate activity continued to weaken, with sales declining in many Districts and flat in a number of others. Boston, however, noted improving residential markets, with some increases in sales volume. Several Districts also reported declining homebuilding activity. Commercial real estate markets continued to be active, with several reports of robust commercial construction activity. Several Districts noted little or no growth in overall lending activity, but San Francisco noted generally solid loan demand. Reports of weakening residential mortgage activity continued to offset reports of increases in commercial and industrial lending. Agricultural conditions were mixed in recent weeks across the Districts. Activity in the energy and mining sectors has remained at high levels since the previous report.

Most Districts reported continuing tight labor market conditions, especially for skilled occupations. Several Districts noted faster wage growth for skilled workers, but only modest overall wage increases. Consumer prices remained generally stable, with some Districts experiencing only modest price increases. Most Districts, however, reported rising prices for inputs and energy.

Consumer Spending

Reports on retail sales in most Districts were generally positive. New York, Philadelphia, Atlanta, Kansas City, and San Francisco noted increased sales compared with a year ago, while Boston noted mixed sales reports. The Cleveland, Chicago, St. Louis, Minneapolis, and Kansas City Districts reported increased sales since the previous report, and Richmond reported flat sales in recent weeks. In Dallas, sales increased in March but then slowed in April. Several Districts--New York, Philadelphia, Chicago, Minneapolis, and Dallas--noted that the early Easter contributed to sales growth. Sales were generally above expectations in New York, but they were below expectations in Cleveland. Apparel and spring merchandise

were strong sellers, while some Districts noted weak demand for home goods. The Districts that reported on inventories generally noted favorable levels. Overall, contacts in Cleveland and Kansas City expect positive sales growth in the next few months, while the outlook in Boston, Philadelphia, and Dallas is more cautious.

Reports on vehicle sales were mixed among the Districts. Although sales improved recently in Kansas City and Philadelphia, both Districts reported that sales were still not above the levels for the previous year. Recent sales were slow in Chicago, mixed in Atlanta, flat or slightly slower in Richmond, and mediocre in parts of the Minneapolis District. Compared with a year ago, sales were up in St. Louis and reached similar levels in Kansas City. Recent demand for used cars was strong in parts of the St. Louis, Minneapolis, and San Francisco Districts, while new car sales improved in Cleveland in March. Atlanta and San Francisco both reported that sales of imports were stronger than sales of domestic vehicles, but Cleveland reported that sales of both types improved. Atlanta and Chicago reported strong demand for more fuel-efficient vehicles, while truck sales were weak in the Atlanta and Kansas City Districts. Auto dealers in Minneapolis and Kansas City have an optimistic outlook for the upcoming months, while those in Philadelphia do not expect sales to improve significantly.

Manufacturing and Other Business Activity

Manufacturing activity remained slow overall, although reports on conditions in the manufacturing sector varied across Districts. Dallas and Minneapolis, for example, reported expansion, while Chicago reported a recent firming of activity. Boston and San Francisco, however, reported that activity was mixed, while New York, Richmond, St. Louis, and Kansas City reported a weakening in the sector in recent months. Reports from the remaining Districts indicated that activity expanded slightly or not at all. Producers of commercial aircraft and aviation products reported strong demand in some Districts. A rise in steel shipments was noted in the Cleveland and Dallas Districts. Atlanta and Chicago noted plans to increase capacity in steel industries. Farm machinery manufacturers experienced increased demand in the Chicago and Minneapolis Districts. Food manufacturers also reported strong performance in the Cleveland and San Francisco Districts. In contrast, many Districts reported weakness among manufacturers that support the residential construction industry. Boston, Cleveland, Chicago, and St. Louis also noted weakness in the auto and auto-related product industries. The Boston, Philadelphia, Cleveland, Chicago, Kansas City, and San Francisco Districts noted plans for increased capital spending in some manufacturing industries.

Activity in the services sector increased in most areas throughout the Districts, particularly for firms serving business customers. Sectors reporting growth included accounting, administrative, business, and health care services. Increases in tourism activity were reported by Atlanta, Kansas City, Minneapolis, New York, Richmond, and San Francisco. Dallas reported strong railroad cargo and trucking volumes, while the Atlanta District reported weak demand in the freight transportation sector.

Real Estate and Construction

Residential real estate activity continued to weaken in many Districts. Housing markets were described as falling or soft in the San Francisco and Richmond Districts. Year-over-year, home sales declined in the Cleveland, Atlanta, and Kansas City Districts, and home sales were reported as mixed throughout the St. Louis District. The Minneapolis District noted that, for the Minneapolis--St. Paul metro area, home sales were down in the first quarter of 2007 compared with a year ago. Home sales continued to weaken in the Dallas District, but

demand remained good by historical standards. In contrast, the Boston District reported that the volume of residential sales across New England shows signs of increasing, though prices remained below 2006 levels. The Dallas District reported that inventories are rising for both homes and building lots. Inventories of unsold high-end homes were noted in the New York and Chicago Districts, and sales of high-end homes were weak in the Kansas City District. Meanwhile, homes in more moderate price ranges were reported as selling well in parts of the New York, Kansas City, and Richmond Districts.

Many Districts saw a decrease in homebuilding. Residential construction decreased in most areas of the Minneapolis, Chicago, and St. Louis Districts. New home construction remained low in most areas of the Atlanta District and many builders anticipate further modest declines. Residential construction remained sluggish in the Kansas City District and builders generally expect home starts to remain flat. Additionally, the Dallas District reported that builders are significantly curbing home starts.

Commercial real estate markets continued to be active across most Districts. Commercial real estate markets remained robust in the St. Louis and New York Districts, and the Kansas City District reported solid gains. While vacancy rates were little changed in the Chicago and Richmond Districts, vacancy rates declined in most cities of the San Francisco and Kansas City Districts. Vacancy rates edged down in some markets of the New York District, with Manhattan office vacancy rates slipping to their lowest levels since 2001. The Minneapolis District noted that office vacancy rates declined in the first quarter of 2007 in the Minneapolis--St. Paul area. The Dallas District reported that office leasing has slowed.

Commercial construction continued to expand throughout most Districts. Atlanta reported that the pace of commercial development during the first quarter of 2007 exceeded year-ago levels. Backlogs in the Atlanta and Cleveland Districts were equal to or greater than they were a year ago. The Cleveland District also reported that activity among commercial contractors has increased over last year's levels. In the Chicago District, non-residential construction remained stable compared with a year ago. The Richmond District generally noted little change in new commercial construction. Several non-residential building projects are planned or under construction in the St. Louis and Minneapolis Districts. Heavy building also increased in the Minneapolis District since the previous report. Commercial and public construction activity has expanded in some areas of the San Francisco District, and the Kansas City District reported, following a period of little growth, that construction has risen there as well.

Banking and Finance

Reports by Districts indicating increasing loan demand for commercial and industrial loans contrasted with reports indicating flat or slowing demand for residential mortgage loans. Overall lending activity slowed or weakened in the New York and Richmond Districts and was flat or increased modestly in the Cleveland, Philadelphia, Chicago, St. Louis, and Kansas City Districts. San Francisco, however, reported overall solid growth in loan demand. Demand for commercial and industrial loans rose in the Philadelphia, St. Louis, Kansas City, Chicago, and San Francisco Districts, and Dallas reported that commercial lending is strong. In contrast, Richmond reported that demand for commercial loans declined. Demand for residential loans declined in the Kansas City and San Francisco Districts, and Dallas reported weakness in real estate loans. Demand for residential mortgages in the Philadelphia and Richmond Districts was flat. Chicago reported rising mortgage applications, and St. Louis reported an increase in real estate loans. New York reported a decrease in refinancing activity, while both Philadelphia and Chicago noted an increase in refinancing activity attributed to borrowers looking to move from adjustable-rate to fixed-rate loans. There were reports of

moderate or scattered increases in delinquency rates in some loan categories in the Richmond, Atlanta, Dallas, and New York Districts, but overall credit quality remained at favorable levels in the San Francisco, Cleveland, and Dallas Districts. Kansas City reported unchanged credit standards, while New York reported steady to slightly tighter credit standards for all loans. Both the Dallas and Cleveland Districts reported slightly tighter mortgage credit standards.

Agriculture

Weather since the previous report has had mixed effects on agricultural conditions. Recent rains improved soil moisture in the Minneapolis and Dallas Districts and eased drought conditions in the Kansas City District. Atlanta reported that drought-like conditions lowered the outlook for some crops. Severe cold weather and frost in early April were reported by Richmond, Atlanta, St. Louis, Kansas City, and Chicago. Of these, all but Chicago reported crop damage caused by the cold snap. Because of higher corn prices, farmers in the Chicago, St. Louis, Minneapolis, Kansas City, and Dallas Districts plan to devote more acreage to corn production in 2007. In the San Francisco District, demand continued to increase for a variety of crops and dairy products. Chicago and Minneapolis reported rising demand for farm machinery, while Chicago reported that farmers were facing delays in receiving new machinery and increased prices for used machinery. Chicago and Kansas City both reported increased cash rents for land.

Natural Resource Industries

Activity in the energy and mining sectors remained at high levels since the previous report. Growth slowed but energy activity remained high in both Kansas City and Dallas. In Kansas City, overall rig count declined, which most contacts attributed to increased drilling costs. Dallas reported that while rig counts are at historically high levels in Texas, growth is slowing and some rigs are moving to the expanding international market. Energy activity in the Minneapolis District increased since the previous report, and mining production remained at near capacity. Cleveland reported that recent oil and gas production ranged from flat to increasing, while exploration was unchanged in Minneapolis. Exploration and new production of oil and gas remained high priorities in the Atlanta District. In Cleveland, coal production decreased from the previous year and the previous report. Minneapolis and Cleveland reported growth in alternative energy projects, such as wind power.

Labor Markets

Most Districts reported continuing tight labor market conditions, especially for skilled occupations, although several Districts reported expansions in employment levels. There were reports of tight labor market conditions or worker shortages in some areas of the New York, Philadelphia, Richmond, Atlanta, Minneapolis, Kansas City, and Dallas Districts. Additionally, the Boston, Richmond, Atlanta, Kansas City, Dallas, and San Francisco Districts noted difficulties in hiring skilled workers. There were, however, reports of increased hiring in the New York, Cleveland, Chicago, and Kansas City Districts. The Philadelphia and Richmond Districts also reported increased demand for temporary workers. The Dallas, Minneapolis, and Cleveland Districts reported strong demand for workers in several services sectors. Retail hiring was reported to be steady in the Boston and Cleveland Districts, but new hiring was limited to new store openings and replacement.

Wages

Wage increases were reported in some industries of the New York, Philadelphia, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco Districts. These were generally modest. Specifically, the New York, Richmond, Atlanta, and Dallas Districts noted wage increases in some services sectors, and the Richmond District also noted faster wage growth in the retail sector. The Dallas District noted that continued layoffs reported by homebuilders and some manufacturers resulted in downward wage pressures. The San Francisco District indicated that wage pressures eased in the construction and agriculture sectors. Except for energy-related businesses, wage pressures in the Cleveland District were largely contained, but wage pressures edged higher in the Kansas City District. There were reports of wage pressures for skilled workers in the Dallas District and for in-store pharmacists in the Cleveland District. The Chicago, Dallas, and San Francisco Districts also noted faster growth in pay rates for some skilled positions.

Prices

Consumer prices remained generally stable or increased modestly, but most Districts reported a rise in input prices, particularly for metals and raw materials. However, a number of Districts reported low or declining lumber prices. Higher energy and/or fuel costs were noted in the Philadelphia, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, and Dallas Districts. In response to higher input prices, some manufacturing businesses in the Boston, Cleveland, Chicago, and Dallas Districts were able to raise output prices. In contrast, some manufacturers in the Kansas City and San Francisco District were unable to raise output prices. Retailers and service firms in the New York, Philadelphia, Kansas City, Richmond, and Dallas Districts indicated that prices remained stable or increased modestly.

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