



June 13, 2007

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Summary

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Prepared at the Federal Reserve Bank of Philadelphia based on information collected before June 4, 2007. 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.

Reports from the twelve Federal Reserve Banks indicated that economic activity continued to expand from mid-April through May. Seven banks described growth in their Districts as modest or moderate: Cleveland, Atlanta, Chicago, St. Louis, Kansas City, New York, and San Francisco. Dallas reported growth as moderately strong, and Minneapolis said the District's economy edged up. Philadelphia reported that growth was somewhat faster than in recent months, and Richmond said growth picked up a bit. Boston characterized reports from its contacts as generally positive.

Consumer spending and retail sales were generally up in late April and May, with a number of Districts reporting that luxury items were selling better than lower-end merchandise. On net, there was little change in auto sales across the Districts, and dealers are about evenly split on whether there will be any pickup in sales over the summer. Travel and tourism remained healthy despite the recent rise in gas prices, although the rise in prices remains a concern for the summer. Except for trucking, reports from the service industries were generally positive. Declines were widely reported in the trucking industry, however. Manufacturing activity was up in a majority of Districts. There was weakness among manufacturers producing for the residential construction industry but strength among machinery and equipment manufacturers in several Districts.

There was continuing weakness in residential real estate and construction but increasing strength in the commercial real estate sector, including both office and industrial space. Half the District banks reported little or no change in overall loan demand, with strength in commercial lending and weakness in residential mortgages and consumer lending. In the agricultural sector, crop conditions improved and were generally described as good. An early spring frost harmed some winter wheat, and drought conditions caused problems in the Southeast and the far West. Oil and gas exploration increased in recent months, but coal production was down.

Hiring activity picked up in late April through May, especially for workers with specialized skills. But most Districts reported that overall wage pressures do not seem to have increased. There have been significant price increases for energy-related products and selected raw materials, but the prices of some raw materials have remained stable.

Consumer Spending and Tourism

Consumer spending and retail sales were up in late April and May, but changes in consumer spending varied by category and by District. San Francisco reported moderate growth in

sales, and Chicago reported a gradual increase in consumer spending. The majority of retail contacts in St. Louis said sales met or exceeded expectations. New York noted that retail sales were close to plan, with business particularly brisk in New York City. However, contacts in four Districts--Cleveland, Atlanta, Kansas City, and Dallas--noted that sales were disappointing or below expectations. Atlanta and Minneapolis described sales growth as marginal or modest. According to contacts in Philadelphia, Chicago, and San Francisco, luxury items were selling better than low-priced items. Several District banks reported weakness in sales of big ticket items such as furniture and household durables. Mall traffic was down in Philadelphia, Richmond, Minneapolis, and Kansas City. Reports from Cleveland, Richmond, Dallas, and San Francisco suggest that higher gasoline prices may have restrained consumer spending on other items. Retailers in Boston, New York, Chicago, and St. Louis generally reported inventories at expected or desired levels. Philadelphia reported no major change in inventories, while Atlanta and Kansas City reported that inventories had risen. Looking forward, a majority of retailers in St. Louis see year-over-year sales increases this summer, and Philadelphia retailers see sales growth continuing at the current rate. But in Cleveland and Kansas City retailers anticipate slower or modest sales growth in the immediate future.

Auto sales were steady or little changed in five Districts: Cleveland, Chicago, Minneapolis, Dallas, and San Francisco. They picked up in the last few months in Philadelphia from low levels earlier in the year, and they were above last year's level in St. Louis. Auto sales were down, however, in Atlanta and Kansas City. Dealers in St. Louis and Kansas City remain optimistic about a pickup in sales, but dealers in Philadelphia and Cleveland do not expect much change.

Spending on travel and tourism remained healthy despite the recent rise in gas prices. Spending by tourists was strong in Boston, New York, Richmond, Minneapolis, Kansas City, and much of the San Francisco District. Reports from Boston, New York, and Kansas City mentioned higher rental rates for hotel rooms. Tourism was down, however, in Hawaii and in Michigan. Contacts in several Districts expressed concern that higher gas prices may negatively affect travel and tourism this summer.

Services

With the exception of trucking, growth in the service industries generally has been positive. Information technology services experienced double-digit growth year over year in the Boston area. Both Dallas and San Francisco reported solid demand for IT services. Minneapolis mentioned growth in professional services generally, and Dallas reported strong demand for corporate legal services and accounting.

In the trucking and shipping industry, sluggish demand or declines were noted in half the Districts: Cleveland, Richmond, Atlanta, Chicago, St. Louis, and San Francisco. Dallas was the only District to mention a pickup in the trucking business.

Manufacturing

Most Districts reported that manufacturing activity was up in the most recent period. Growth rates varied by industry group, however, and some Districts experienced little or no overall growth. Cleveland and Chicago reported stable conditions or little change in the manufacturing sector. St. Louis said manufacturing activity was mixed. Richmond is the only District that reported a decline in manufacturing activity. Some Districts (Philadelphia, Atlanta, Dallas, and San Francisco) mentioned that industries producing for the residential construction market were weak. On the other hand, four Districts--Boston, Philadelphia, Cleveland, and Chicago--mentioned that there was strength among machinery and equipment manufacturers. While several Districts mentioned capital spending plans, reports on capital

spending from Philadelphia, Cleveland, and Kansas City were particularly positive. Both New York and Philadelphia noted that manufacturers were optimistic about growth over the remainder of this year. Manufacturers in Boston and Cleveland expected little change in activity.

Real Estate and Construction

The real estate and construction industries were marked by continued weakness in the residential sector and increasing strength in the commercial sector. Most Districts characterized their housing markets as soft or weak. San Francisco reported that sales volumes for both new and existing homes fell further in most areas, with modest price declines in some parts of the District. Minneapolis described the District's housing markets as mostly weak, and Dallas described the District's housing markets as soft, noting high cancellation rates for new home sales in Dallas and continued slowing in the Houston market. Philadelphia reported no improvement in the housing market, and Cleveland reported that new home sales were stable but prices were down. Atlanta reported that sales stabilized at low levels in parts of Florida but continued to decline in Georgia. Reports from Richmond and St. Louis were mixed, with sales stabilizing or improving in some areas but declining in others. The most positive report on housing markets came from the New York District where there were signs of strengthening in New York City, parts of Long Island, and some close-in New Jersey suburbs. However, housing markets in the rest of the New York District remain sluggish. No District reported an increase in new home construction. Moreover, inventories and days on the market continue to rise in some Districts, although the Kansas City District has seen a reduction in inventories. Realtors in the Philadelphia, Cleveland, and Atlanta Districts anticipate that the weakness in the housing market will last several more months at least.

There was widespread improvement in commercial real estate markets in recent months. More than half the Districts reported that leasing activity was picking up in most of their major markets and vacancy rates were falling. Boston, New York, Philadelphia, and San Francisco also mentioned increases in office rents. Four Districts (Philadelphia, Richmond, Minneapolis, and Dallas) reported strong demand for industrial space, especially warehouse space. Chicago, on the other hand, reported that industrial development was sluggish. All the Districts that mentioned commercial construction activity gave positive reports.

Banking and Finance

Half the Districts reported little or no change in overall loan demand: New York, Cleveland, Atlanta, Chicago, St. Louis, and Kansas City. Philadelphia noted that loans were increasing at a steady pace, and San Francisco reported further growth in loan demand. There was more strength in commercial lending than in consumer lending. About half the Districts noted increases in commercial lending, and growth in commercial lending was reported to be solid or strong in Philadelphia, Richmond, and Dallas. Kansas City, on the other hand, experienced an easing of C&I loans except for commercial real estate. Consumer lending increased at a steady pace in Philadelphia, and lending for autos and marine equipment was up in Cleveland. But Dallas saw a decline in lending for autos.

Residential mortgage lending was either declining or flat in all the Districts reporting except New York, where there was a pickup in mortgage lending. New York, Atlanta, and Chicago mentioned higher mortgage delinquencies. In Philadelphia and Cleveland lenders have little or no expectation of a pickup in mortgage lending through the rest of this year. Credit standards are mostly unchanged, except for home mortgages in New York and commercial real estate in St. Louis.

Agriculture and Natural Resources

In most Districts crop conditions were described as good or improving. But Chicago reported that crop conditions were mixed, ranging from "stunted" to "excellent." A spring frost in parts of Mississippi, Tennessee, Kentucky, and Kansas caused damage to the winter wheat crop. Drought conditions in the Southeast and in parts of the San Francisco District hindered crop development and harmed pasture land. In the San Francisco District some cattle were brought to market early because of the lack of adequate grazing land. A number of Districts noted higher prices for corn, soybeans, and wheat. The higher cost of feed grains has resulted in higher prices for cattle and hogs.

Exploration and development of oil and gas increased in the Atlanta and Minneapolis Districts. The rig count was up modestly in the Kansas City District, and the number of rigs is expected to continue to increase. Rig counts have remained stable in Texas, but they are at relatively high levels. Older rigs, however, are being refurbished. Oil and gas development was described as high in Cleveland and production as flat to slightly up. But coal production is down in the Cleveland District. Minneapolis reported that mining production was flat but the industry was producing at near capacity.

Labor Markets, Wages, and Prices

Several District reports mentioned that hiring activity increased in the late April through May time period. Staffing agencies in Boston and New York noted that demand was high for workers in information technology, medical, and financial service industries. Several Districts mentioned that the market for workers with specialized skills was tight. On the other hand, layoffs continued among home builders and in the manufacturing and service industries associated with home building. Wage increases were variously described as modest (Atlanta), steady (Philadelphia), or moderate (Minneapolis and San Francisco). Kansas City reported that while wages were up, wage pressures had eased since the previous report.

More than half the Districts mentioned higher energy prices for both producers and consumers. Several Districts (Cleveland, Minneapolis, Kansas City, and Dallas) reported rising prices for selected raw materials, such as copper. Atlanta and Chicago noted, however, that prices for raw materials were steady or even down. There were differing reports on the costs of construction materials. Kansas City reported that construction costs were mixed. Atlanta said the cost of construction materials was lower, and Dallas said the cost of building materials was moving up. At the consumer level both Kansas City and Dallas mentioned the rising cost of food. However, District reports generally did not indicate an increase in overall price pressures. For example, Chicago noted that price pressures were similar to the last report, and San Francisco observed that overall price inflation seemed to be modest.

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