



January 16, 2008

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Summary

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Prepared at the Federal Reserve Bank of Atlanta and based on information collected before January 7, 2008. 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.

Reports from the twelve Federal Reserve Districts suggest that economic activity increased modestly during the survey period of mid-November through December, but at a slower pace compared with the previous survey period. Among Districts, seven reported a slight increase in activity, two reported mixed conditions, and activity in three Districts was described as slowing.

Most reports on retail activity indicated subdued holiday spending and further weakness in auto sales. However, most reports on tourism spending were positive. Residential real estate conditions continued to be quite weak in all Districts. Reports on commercial real estate activity varied, with some reports noting signs of softening demand. Manufacturing reports varied across industries, with pronounced weakness noted in housing-related industries as well as the automobile industry. Strong export orders and increased demand in industries whose products compete against imports was reported by some Districts. Demand for nonfinancial services remained generally positive, although some Districts commented on continuing weak demand for transportation services.

Reports from banks and other financial institutions noted further declines in residential real estate lending, and lending to the commercial real estate sector was generally described as mixed. Some Districts reported lower consumer loan volumes, whereas the volume of commercial and industrial lending varied. Most Districts cited tighter credit standards.

Demand continued to decline for construction workers and those in housing-related industries, according to most reports, while demand generally held steady for skilled workers in nonfinancial service industries. Wage increases remained moderate overall. Increases in prices for food, petrochemicals, metals, and energy-related inputs continued to be widely reported, and production and delivery costs for many products increased because of higher fuel prices. Producers in the agricultural sector reported generally strong demand and favorable production conditions outside of the drought-stricken areas in the Southeast. Strong oil and gas exploration and production activity was noted by several Districts.

Consumer Spending and Tourism

Reports indicate that holiday sales were generally disappointing. Sales in the Atlanta, Boston, Chicago, Cleveland, Dallas, New York, Richmond, and San Francisco Districts were variously described as lackluster, weak, below year-ago levels, or mixed. Kansas City reported that spending was solid, but below expectations. Sales rose modestly according to Minneapolis, Philadelphia, and St. Louis reports. Atlanta and New York merchants noted that

foreign buyers were a boost to holiday sales. Overall, the outlook for 2008 among retail merchants was cautious.

Most Districts reported that vehicle sales for late 2007 were below year-ago levels. However, the Minneapolis report noted strong demand from area farmers and Canadians purchasing vehicles across the border. The Atlanta and Kansas City Districts reported that sluggish vehicle demand has resulted in unexpected inventory accumulation. However, imports and fuel-efficient vehicles continued to sell well according to the Philadelphia, Kansas City, and Dallas reports. Atlanta noted that some foreign brands had turned to fleet sales to offset generally weaker retail demand. Dealers in Philadelphia and Cleveland anticipated that sales in 2008 would be flat to lower than in 2007.

Reports on tourism were mostly positive. The Atlanta District observed that Florida businesses catering to winter visitors experienced increased demand. The number of visitors from Europe and Canada were especially strong, and bookings for the Spring were robust. Minneapolis reported that solid snowfall in many parts of the District helped spur winter tourism activity. Richmond's assessment of tourist activity was also generally upbeat. Tourism activity in New York City was said to have remained strong through year-end.

Nonfinancial Services

Most reports cited robust demand in several nonfinancial service industries including health care, hospitality, legal, and insurance. According to Atlanta, the demand for engineers, particularly in petrochemical fields, was very strong. Reports on temporary staffing services were mixed. For instance, Dallas and Philadelphia noted that employment firms reported weaker demand for temporary workers, whereas New York and Richmond reported relatively strong demand.

Demand for transportation services was generally weak, led by lower demand from the housing sector. Reports indicated that freight volume continued to weaken in the Atlanta and Cleveland Districts and was slow overall in the Dallas District. Inter-modal transportation volumes were also said to be lower in the Atlanta and Dallas Districts, although Dallas noted that rail shipments were up, led by strong agricultural shipments.

Manufacturing

Reports on manufacturing activity varied. Kansas City reported that manufacturing was expanding and that manufacturers were relatively upbeat. Cleveland reported that manufacturing output remained steady overall, whereas Dallas indicated that conditions continued to soften. New York reported that manufacturing activity appeared to weaken somewhat in early December, but noted some improvement later in the month. Among the positive reports, San Francisco noted that production and new orders for commercial aircraft and parts remained solid, while sales of information-technology products continued to increase moderately. Boston said that sales of aircraft equipment and pharmaceuticals continued to rise at a robust rate. Atlanta and Minneapolis noted that defense and energy-related manufacturers reported strong activity. St. Louis and San Francisco reported that the local food production industry was expanding.

Philadelphia, Chicago, Kansas City, and Atlanta reported that many firms were expanding export activity. In some cases, demand was also said to have increased as a result of import substitution. For example, Chicago reported that domestic steel production was expanding, led by a moderation in imports. Demand for equipment used in energy extraction and mining continued to be robust as well.

However, according to most Districts, conditions in manufacturing industries producing construction and home-related goods remained weak. Richmond noted weakness in demand for electronics, and San Francisco described production of industrial equipment as tepid. In addition, auto-related production was soft according to the Cleveland, Chicago, and St. Louis reports.

Real Estate and Construction

Conditions in most housing markets remained quite weak through year-end. The pace of sales continued to be sluggish, and inventories persisted at historically high levels according to most Districts. Home construction levels continued to decline according to Atlanta, Chicago, Dallas, Kansas City, and St. Louis reports. Reports on home prices varied. While Dallas observed that home prices were steady, Atlanta, Cleveland, Kansas City, New York, and Richmond reported that prices declined; the Boston and San Francisco Districts said that changes in home prices were mixed. Overall, contacts anticipate that housing markets will remain weak during the first part of 2008.

Reports on commercial real estate activity varied, with some Districts noting that activity had eased late in the year. Contacts in the Atlanta and Boston Districts indicated that commercial markets were little changed while the Chicago, Kansas City, Minneapolis, Philadelphia, and Richmond reports suggested slower growth. Activity was stable to increasing according to the Cleveland, Dallas, and San Francisco reports. Vacancy rates were described as stable in the New York, Philadelphia, and Kansas City Districts, and as varied in the Richmond District. Chicago and Minneapolis contacts noted that retail vacancies had risen. Kansas City contacts reported that leasing activity was stable, whereas leasing activity in the Richmond, Philadelphia, and New York Districts had slowed. Most Boston District contacts reported that rents were flat, while rents were steady to declining according to the Chicago and Kansas City reports. New York and Richmond noted that rental rates had stabilized in the fourth quarter, whereas Dallas continued to report rising rental rates.

Contacts in the Boston and Chicago Districts indicated that commercial construction activity was slowing. Developers in the Atlanta and Richmond Districts reported smaller backlogs of projects while Cleveland District contacts said that backlogs had risen. Most contacts anticipate a slower pace of commercial development during 2008.

Banking and Finance

Reports suggest that both business and consumer lending activity slowed in most Districts from mid-November through December. Residential mortgage lending continued to contract in all Districts while refinancing activity varied. For instance, Chicago and Richmond noted increased refinancing activity, but New York cited widespread declines in refinancing. Reports on commercial real estate loan demand were also mixed, although Dallas and Cleveland noted relatively healthy demand. Most reports indicated that credit standards for most loan categories had tightened over the period. Downward pressure on deposits was noted by Chicago, New York, Philadelphia, St. Louis, Kansas City, and Dallas. Several Districts reported declines in loan quality and increased delinquencies.

Agriculture and Natural Resources

The performance of the agricultural sector across Districts was generally favorable. Upbeat conditions in Chicago, Minneapolis, and San Francisco were attributed to a combination of higher crop prices and favorable weather. Dallas and San Francisco reported strong domestic and global demand for their products. Kansas City reported that strong demand and low inventories boosted prices and income for crop producers. However, despite recent rains, conditions for drought-stricken areas in the Atlanta and Richmond Districts remained generally poor.

Activity in the energy sector increased according to the Atlanta, Dallas, Kansas City, and Minneapolis Districts. Dallas noted a sharp rise in the Texas rig count while Kansas City cited strong drilling activity in Oklahoma and Colorado. However, seasonal factors dampened drilling activity in the Cleveland District, and reports on coal production in the region were mixed. Atlanta indicated that Gulf Coast crude inventories were low, but new offshore platforms should help boost production in 2008.

Prices and Wages

According to most reports, businesses continued to face rising costs for food, petrochemicals, metals, and energy-related inputs. Several Districts noted that transportation costs for most products increased. Philadelphia reported that some firms had raised output prices in order to cover higher energy costs. In the San Francisco District, price inflation was said to be limited in general, but significant for food and energy. Dallas reported that high or rising input costs were squeezing margins for most industries. Manufacturers in the New York District reported prices paid and received had increased and that this was expected to continue. Atlanta noted that input costs continued to increase for imported goods originating in Europe or Japan because of the lower value of the dollar. In contrast, producers of framing lumber, wallboard, and wood panels reported weak prices according to the Atlanta, Minneapolis, and Chicago reports.

Reports suggest that labor markets remained relatively tight overall, and especially for skilled workers, whereas housing-related industries continued to trim payrolls. Increases in employment costs were generally described as moderate. Kansas City reported that overall wage pressures eased, with only the energy sector citing significant wage pressure. Philadelphia reported that labor costs continued to increase at a moderate pace while Boston, Chicago, Dallas, and San Francisco reported that wage pressures remained limited outside of a few sectors that continue to experience shortages of skilled labor. Wage pressures were not significant according to the Cleveland report.

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