Beige Book

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Summary of Commentary on Current Economic Conditions

By Federal Reserve District

Summary

Reports on the Federal Reserve Bank of Chicago District are characterized as slower economic growth. Reports on the Federal Reserve Districts of Boston, Philadelphia, Richmond, Atlanta, Dallas, and San Francisco indicate moderate economic growth. Reports on the Federal Reserve Districts of New York, Cleveland, St. Louis, Minneapolis, Kansas City, and New York City indicate little change in economic activity. Reports on the Federal Reserve Districts of Boston, Philadelphia, Chicago, Atlanta, Dallas, and San Francisco indicate slower growth in retail sales. Reports on the Federal Reserve Districts of New York, Cleveland, St. Louis, Minneapolis, Kansas City, and New York City indicate little change in retail sales. Reports on home building from nine Districts indicate declines in residential construction activity and home sales. Reports on nonresidential construction from seven Districts indicate slower growth or declines in activity. Reports on manufacturing from eight Districts indicate slower growth or declines in activity. Reports on the Federal Reserve Districts of Boston, Philadelphia, Chicago, Atlanta, Dallas, and San Francisco indicate slower growth in loan demand. Reports on the Federal Reserve Districts of New York, Cleveland, St. Louis, Minneapolis, Kansas City, and New York City indicate little change in loan demand. Reports on the Federal Reserve Districts of Boston, Philadelphia, Chicago, Atlanta, Dallas, and San Francisco indicate slower growth in loan volumes. Reports on the Federal Reserve Districts of New York, Cleveland, St. Louis, Minneapolis, Kansas City, and New York City indicate little change in loan volumes. Reports on the Federal Reserve Districts of Boston, Philadelphia, Chicago, Atlanta, Dallas, and San Francisco indicate slower growth in prices. Reports on the Federal Reserve Districts of New York, Cleveland, St. Louis, Minneapolis, Kansas City, and New York City indicate little change in prices. Reports on the Federal Reserve Districts of Boston, Philadelphia, Chicago, Atlanta, Dallas, and San Francisco indicate slower growth in wages. Reports on the Federal Reserve Districts of New York, Cleveland, St. Louis, Minneapolis, Kansas City, and New York City indicate little change in wages. Reports on the Federal Reserve Districts of Boston, Philadelphia, Chicago, Atlanta, Dallas, and San Francisco indicate slower growth in employment. Reports on the Federal Reserve Districts of New York, Cleveland, St. Louis, Minneapolis, Kansas City, and New York City indicate little change in employment. Reports on the Federal Reserve Districts of Boston, Philadelphia, Chicago, Atlanta, Dallas, and San Francisco indicate slower growth in consumer spending. Reports on the Federal Reserve Districts of New York, Cleveland, St. Louis, Minneapolis, Kansas City, and New York City indicate little change in consumer spending.

Consumer spending remained weak, and Boston, with a few Districts noting a little improvement and others softening or slight deterioration. Business spending was very soft, with a few Districts reporting slight declines in activity. Manufacturing remained weak overall, with a few Districts reporting slight improvement and others softening or slight deterioration. Residential real estate activity remained very weak overall, with a few Districts reporting slight improvement and others softening or slight deterioration. Nonresidential construction softened in about a dozen Districts, while Kansas City continued to report strength in this area. Banks reported little change in loan demand overall, with a few Districts reporting slight softening. Credit quality remained good overall, with a few Districts reporting slight deterioration. Price pressures were mixed, with a few Districts reporting slight increases and a few reporting slight decreases. Wage pressures were generally moderate, with a few Districts reporting slightly stronger increases. Labor markets continued to be tight overall, with a few Districts reporting slight softening. Employment increased in most Districts, with a few reporting slight declines. Overall economic outlooks were mixed, with a few Districts reporting slightly more optimism and others reporting slightly more pessimism.

Consumer Spending and Tourism

Reports on consumer spending were mixed, with a few Districts noting slight declines and generally flat throughout much of the country in January. Boston, Chicago, and Kansas City reported slight increases in consumer spending, while Richmond reported a slight decline. Auto dealers reported that consumer shopping for the New Year, Presidents' Day weekend, and tax refunds were generally disappointing, with sales flat to down slightly in most areas. Reports on home furnishings were mixed. Tobacconists, fine merchandise, and jewelry retailers reported slight increases in sales, while apparel retailers reported slight declines. Grocers reported slight increases in sales. Restaurants reported slight increases in sales, with a few Districts noting that sales were down from a year ago. Reports on tourism were mixed, with a few Districts reporting slight increases in tourism and others reporting slight declines. Contacts in the hospitality industry reported that business travel was generally flat to down slightly, while leisure travel was generally flat to up slightly. Reports on casino revenues were mixed, with a few Districts reporting slight increases and others reporting slight declines.

Business Spending

Reports on business spending were soft overall, with a few Districts noting slight declines in activity. Contacts reported that business travel was generally flat to down slightly. Reports on advertising were mixed, with a few Districts reporting slight increases in activity and others reporting slight declines. Reports on business services were mixed, with a few Districts reporting slight increases in activity and others reporting slight declines. Reports on transportation services were mixed, with a few Districts reporting slight increases in activity and others reporting slight declines. Reports on temporary help services were mixed, with a few Districts reporting slight increases in activity and others reporting slight declines.

Manufacturing

Reports on manufacturing generally remained weak nationally, but half of the reports noted at least slight improvement. Boston reported that manufacturing activity "generally remained at a low level," while Philadelphia reported that factory activity "remained soft overall." In Chicago, "Activity in a few segments of the manufacturing sector showed some improvement, while manufacturing activity in other segments remained weak." Atlanta reported that manufacturing activity "remained soft overall." Dallas reported that factory activity "remained weak overall." San Francisco reported that manufacturing activity "showed little growth." Manufacturers in Cleveland, Richmond, and Kansas City reported slight increases in activity, while contacts in St. Louis reported slight declines in activity. Reports on the factors affecting manufacturing activity were mixed, with some manufacturers reporting that increases in energy prices were hurting their profit margins, while others reported that lower energy prices were helping their profit margins. Reports on the outlook for manufacturing were mixed overall, with a few Districts reporting slightly more optimism and others reporting slightly more pessimism.

Housing and Finance

Reports on residential real estate activity remained very weak. Districts indicated that growth in residential construction activity was generally flat to down slightly, while sales of existing homes were generally down slightly to down moderately. Reports on nonresidential construction were mixed, with a few Districts reporting slight increases in activity and others reporting slight declines. Reports on mortgage rates were generally flat to down slightly. Demand for other types of consumer loans was generally flat, while demand for business loans was generally flat to up slightly. Reports on credit quality were mixed, with a few Districts reporting slight increases in delinquencies and others reporting slight declines. Reports on the availability of credit were generally unchanged, with a few Districts reporting slight increases in the availability of credit and others reporting slight decreases in the availability of credit. Reports on the availability of loans for commercial real estate were generally unchanged, with a few Districts reporting slight increases in the availability of loans and others reporting slight decreases in the availability of loans.

Boston's housing activity contracted overall as most of the areas surveyed reported declines in residential construction activity. Philadelphia reported that residential construction remained generally flat and nonresidential construction declined. Atlanta reported that the bulk of residential construction activity was concentrated in the condominium market, which remained soft. Dallas reported that the Houston and San Antonio markets remained soft, while the Dallas market showed some signs of stabilization. San Francisco reported that residential construction activity remained soft, with some signs of stabilization in the Seattle area. There were few indications that retail spending in the Districts was being affected by the recent turmoil in the subprime mortgage market.

Prices and Employment Costs

Reports on prices were mixed across Districts, with fourth-quarter readings in the moderate part of the spectrum. Boston reported that prices increased at a moderate pace, while Philadelphia reported that prices increased at a slower pace. Chicago reported that prices increased at a slower pace overall, with some contacts reporting that they had raised prices in response to increases in transportation and energy costs. Atlanta reported that prices increased at a moderate pace overall. Dallas reported that "purchase prices at the manufacturing level continued to rise, albeit at a slower pace than in recent months." San Francisco reported that prices increased at a moderate pace overall, with some contacts reporting that they had raised prices in response to increases in energy and transportation costs.

Reports on labor markets were generally mixed. Boston reported that "labor markets remained tight overall." Philadelphia reported that "labor markets were generally steady." Chicago reported that "labor markets were mixed, with some reporting difficulty finding qualified workers and others reporting that the supply of workers was adequate." Atlanta reported that "labor markets remained tight overall." Dallas reported that "labor markets remained tight overall, although there was some easing in the pace of hiring." San Francisco reported that "labor markets remained tight overall."

Reports on wage pressures were generally moderate. Boston reported that "wage pressures remained moderate overall." Philadelphia reported that "wage pressures were generally moderate." Chicago reported that "wage pressures were mixed, with some contacts reporting that they had raised wages in response to increases in energy and transportation costs and others reporting that they had not raised wages." Atlanta reported that "wage pressures remained moderate overall." Dallas reported that "wage pressures remained moderate overall, although there was some evidence of upward pressure in the Houston area." San Francisco reported that "wage pressures remained moderate overall."

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First District--Boston

The First District economy shows little sign of expansion currently. Retailers, the disappointing exception, reported that sales were flat to down slightly in January and February. Manufacturers and business service vendors, broadly conceived, reported that orders are flat to down slightly. Commercial real estate markets in New England remain very soft. Residential real estate markets are also soft, with prices generally down somewhat and activity at relatively depressed levels.

Retail

Retailers in the Boston District reported disappointing sales in December, although some contacts report a slight uptick in January and February. Auto and gasoline suppliers report that sales are flat to down slightly. Apparel retailers report that sales are flat to down slightly. Luxury goods retailers report that sales are flat to down slightly. Discount retailers report that sales are flat to down slightly. Grocery store contacts report that sales are flat to down slightly. Restaurants report that sales are flat to down slightly. Hotels report that sales are flat to down slightly. Tourism contacts report that sales are flat to down slightly. Retailers report that they have cut prices somewhat more frequently and to a greater degree than usual in order to move merchandise. Retailers report that they have cut orders for spring goods and currently have inventories that are in line with their expectations.

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Second District--New York

The Second District's economy has generally softened since the last report, with the notable exception of a strong recovery in the tourism and leisure industries. Signs of softness in manufacturing, housing, and commercial real estate have been widespread. Reports of softness in retail sales have been mixed. Bankers have generally been optimistic about the near term, but have become more cautious regarding the longer term.

Consumer Spending

Retailers report that sales were generally below plan in January and the first three weeks of February. Sales of apparel, jewelry, and furniture have been particularly disappointing. Auto dealers report that sales have been flat to down slightly. Tourism and leisure industries have been the strongest sectors in the District economy. Hotels report that occupancy rates and room rates have been at record levels. Broadway theaters have had a very strong season. Restaurants report that business has been brisk.

Manufacturing and Related Services

Manufacturing activity has declined slightly since the last report. Orders, shipments, and employment have all been down slightly. Input prices have risen at a moderate pace, while selling prices have increased only slightly. Business services firms report that revenues have been flat to down slightly.

Real Estate and Construction

Commercial real estate markets have softened. Office vacancy rates have risen slightly, while asking rents have been flat to down slightly. Retail vacancy rates have risen slightly, while asking rents have been flat. Industrial vacancy rates have risen slightly, while asking rents have been flat to down slightly. Residential real estate markets have softened further. Sales of existing homes have declined substantially, while inventories have risen sharply. Sales of new homes have declined moderately, while inventories have risen substantially. Construction activity has declined slightly.

Banking and Finance

Bankers have become more cautious in their outlook for the near term, but remain optimistic about the longer term. Loan demand has declined slightly. Credit quality has been stable to slightly weaker. Deposits have declined slightly. Interest margins have been under pressure.

Labor Markets

Labor market conditions have deteriorated since the last report. Layoff announcements have increased substantially. Hiring has slowed substantially. Wage pressures have been moderate.

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Third District--Philadelphia

The pace of business activity in the Third District was virtually steady in February, as some sectors reported slight improvement while others reported slight deterioration. Consumer spending was generally flat to down slightly overall. However, the pace of auto sales picked up somewhat in February after declining in January. Manufacturing activity was generally flat to down slightly in both January and February of last year. Retail building has been rising slowly, with most of the construction activity concentrated in the condominium market. Nonresidential construction and business lending remained very active on balance during the period.

In a survey of New York City's executive advisory panel that conditions have deteriorated somewhat since the last survey, with a majority of respondents reporting that the economy is currently in a recession. Although the city has a history of outperforming the nation during recessions, the panel expects that this time will be different. Respondents expect the city's economy to lose 20 percent more job losses than the nation's economy over the next year, and they expect the city's unemployment rate to rise by 2.5 percentage points.

Manufacturing

Third District manufacturers reported mostly depressed and slight gains in new orders in February, with shipments and employment showing similar trends. Inventories were reported to be at comfortable levels, and delivery times were generally unchanged. Prices paid and prices received were reported to be rising at moderate rates, and labor costs were reported to be rising slightly. Capital spending was reported to be flat to down slightly in February.

Retail

The retail industry has had the second-weakest sales since the survey began in mid-1996. Sales were reported to be down slightly in February, and the pace of sales declines has been steady for a year. Inventories are reported to be slightly above desired levels, and prices have been steady. Retailers remain optimistic about the near future. The expected pace of sales increases has been steady for a year, and inventories are expected to be at desired levels by March. Retailers continue to expect prices to rise slightly.

Separately, a major freight shipping firm reports that the movement and flow throughout the District of the cargoes moving the subcontinent (wholesale, consumer, and by-products) has been steady to slightly increasing in February.

Financial Developments

Financial institutions reported that loan demand was flat to down slightly in February. Consumer loans, which appear to be partly seasonal, but steady demand in other segments of the loan market. Credit quality was reported to be steady to slightly improving. Deposits declined slightly, while securities holdings increased. Interest expenses are reported to be rising at a steady pace.

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Fourth District--Cleveland

Economic conditions in the Fourth District remained mixed in January and through the first few weeks of February. Consumer spending remained weak overall, while business activity was mixed. Contacts in residential construction reported continued declines in activity. Manufacturing, banking, and retail reports were mixed. Commercial construction conditions remained strong overall. Contacts in the energy sector reported continued strong activity in the region. Reductions in retail and construction staff were the most frequently cited cost-cutting measures. Contacts in most sectors expected economic conditions to improve over the next few months during the second quarter.

Retail sales remained weak in January, according to those in the region that responded. Auto sales in particular remained weak, with dealers reporting that inventories were high. Sales at the auction houses were mixed. Commercial construction remained strong in most areas of the District. Contacts in residential construction reported continued declines in activity. Builders reported that the number of cancellations remained high, and that the number of new contracts remained low. Realtors reported that the number of existing home sales declined in January.

Labor market conditions have deteriorated since the last report. Several manufacturers reported that they had reduced their workforces in January and February. Contacts in the energy sector reported that they had increased their workforces in January and February. Contacts in the auto sector reported that they would be using temporary layoffs to reduce their workforces in March.

Activity increased in most manufacturing sectors in January and February. Shipments and new orders increased in the primary metals, fabricated metals, and machinery sectors. Activity declined in the auto sector. Contacts in the auto sector reported that they had reduced production in response to declining demand for their products.

Activity was mixed in the retail sector in January and February. Contacts in the auto sector reported that they had reduced production in response to declining demand for their products. Activity increased in the steel sector. Contacts in the steel sector reported that they had increased production in response to increasing demand for their products.

Activity in the banking sector was mixed

Manufacturing

Contacts in manufacturing in Southwest Kansas and Missouri reported that business activity remained flat. Some firms reported that the level of activity and demand had been at relatively high levels for several months, while others reported that the level had been steady for several months but the success of recent product events in the city and agricultural technical trouble in the Nestle Cocoa activity remained strong through February. Manufacturers in Oklahoma reported that business activity remained steady to slightly higher. Over the past couple of months, ...

Banking and Finance

Contacts in the banking sector were mostly positive in Kansas and Missouri. Bankers in Kansas reported that loan demand was strong in February. Many bankers reported that the level of outstanding mortgage refinance activity was down. The remainder of commercial loan activity was among businesses refinancing existing loans. Banking contacts in Oklahoma reported that loan demand remained steady to slightly stronger. Loan activity increased for a second month in February.

Labor and Prices

Labor market conditions continued to report that they were relatively to increase permanent staffing levels. However, contacts in Kansas and Missouri reported that the pressures were coming back to bring about because of budget constraints. The main sector of employment growth was in the health care sector. Wage pressures remained moderate in the Oklahoma area in the District. Employers were continued to report that they were facing rising costs for health insurance and energy costs. Retail prices in Oklahoma City and Tulsa were up and increased significantly.

Agriculture

Agricultural conditions in Northern Florida and south Louisiana remained strong in February, but most areas emerged largely unscathed from recent cold snaps. Winter vaccination efforts for the poultry industry continued to progress.

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Seventh District--Chicago

Reports from Seventh District contacts generally suggested that economic activity maintained well in January and February. Consumer spending was again relatively weak, and current assessments of future spending were mixed. Auto sales were reported to be soft in both new and existing markets. While nonresidential building and real estate activity have picked up somewhat, residential construction and mortgage refinancing have declined from their levels from last year. Bankers continued to report strong commercial demand from households and businesses. Manufacturing activity was reported to be expanding at a moderate pace. Input costs, particularly those for energy, continued to rise rapidly, but manufacturers have had success passing on these increases to their customers.

Consumer Spending

Consumer spending was relatively downward trend in January and February. Retail contacts reported that sales results in January fell short of their somewhat expectations, although there was a lot to appear encouraging beyond the higher-priced new homes, a number of retailers noted that sales had boosted by lower-priced merchandise. Sales picked up in January, with holidays and considerable optimism about the "quality of leaves" from the holiday season. Consumer confidence remained at relatively high levels. Contacts reported that the unseasonably warm weather in January and February had little impact on sales of seasonal merchandise, such as winter clothing. While these levels remained relatively strong, they also realized the amount of ordinary sales. Auto sales were reported to be soft in both new and existing markets. Sales were not stressed, however, and are moving it. Some reports suggested that increases were in some areas of the Midwest and that the number of new retail projects in the pipeline was strong.

Manufacturing

Manufacturing activity was reported to be expanding at a moderate pace in January and February. Nationwide, high vehicle sales allowed in January and February was not as strong as expected. Production levels in the auto sector were reported to be relatively flat. Some suppliers remain under cost cutting, and manufacturers were prepared to raise production levels if sales were to pick up. Steel production was reported to be strong in January and February. Supplies from a new age and inventories were a little high. A producer of heavy trucks said that orders were down from the high levels of last year, but that backlogs remained adequate for meeting the new engines" that went through 2004 and into 2005. Production was also holding up well at other fabricated steel businesses. Demand for machine tools was reported to be mixed. Some contacts reported that orders had generally increased, but domestic customers remained cautious and there was no new illustrations. Other contacts reported that orders had been soft, with the exception of a few large orders for new manufacturing sites were orders.

Construction and Real Estate

Residential real estate activity was reported to soften the billionaires in economic activity, with strength in the household sales and softness in the business sales. Applications for mortgage refinancing have declined from their levels from last year, although they remain at relatively high levels and appeared to increased in household loan quality, as a delinquent. Commercial real estate activity was reported to be mixed. Vacancy rates remained high in some contact with near-large, and cash businesses demand was reflected as relatively flat from levels from last year. Construction activity was reported to be flat to down. Some contacts reported that the unseasonably warm weather in January and February had a positive impact on construction activity, but others reported that the warm weather had little impact. Builders in Illinois, Indiana, and Wisconsin reported that they were not yet ready for the spring season. Some 42 percent of the respondents to the Illinois Association of Realtors" January survey reported that the number of home sales in the Chicago area declined compared to January 2004, with a crude of applications likely this decline. Some 39 percent of respondents to the Indiana Association of Realtors" survey reported that the area was increasing concern about the pending sales tax. Other contacts reported that the number of home sales in the Chicago area declined compared to January 2004, given low stocks and the potential for prepaid conditions to realize profits. Higher cost construction materials, particularly those for steel, have had little impact on the cost of new homes, with the cost of Illinois and Indiana contributed to increased demand rates in the District's three sectors.

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Eighth District--St. Louis

Manufacturing and Trade

Contacts reported sales were at December and January were flat to slightly up, on average, from year-earlier levels. More than 70 percent of the retailers surveyed noted that sales were unchanged from year-ago levels. Sales of building materials, automobiles, and home furnishings increased. Apparel, office, home accessories, and sporting goods sales declined. Sales of food, beverages, and gasoline were mixed. Sales of consumer electronics, health, and personal care items were unchanged. Sales of jewelry declined. Overall, retail sales were mixed to slightly lower from the year-ago level. Sales of building materials increased. Sales of automobiles increased. Sales of furniture and home furnishings increased. Sales of apparel, office, home accessories, and sporting goods declined. Sales of food, beverages, and gasoline were mixed. Sales of consumer electronics, health, and personal care items were unchanged. Sales of jewelry declined. Overall, retail sales were mixed to slightly lower from the year-ago level. Sales of building materials increased. Sales of automobiles increased. Sales of furniture and home furnishings increased. Sales of apparel, office, home accessories, and sporting goods declined. Sales of food, beverages, and gasoline were mixed. Sales of consumer electronics, health, and personal care items were unchanged. Sales of jewelry declined. Overall, retail sales were mixed to slightly lower from the year-ago level.

Construction and Real Estate

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Manufacturing and Other Business Activity

The District's manufacturing sector remains soft. Reports of weak sales, overcapacities and inventories, and declining prices and profit margins continue to outweigh reports of hiring plans. Residential building materials, including appliances, automobile parts, construction materials, and furniture, remain the strongest sectors. Demand for commercial economic and seasonal foreign competition as the source for weakness. Several manufacturers reported that they are considering moving jobs overseas. The level of uncertainty also is seen in the low, softening, stationary, and moderate inventories reported by manufacturers in the District.

The increasing price of diesel fuel has many contacts from small and medium trucking firms concerned about their already narrow profit margins. A major packing and shipping firm in the District reported that it is considering adding a fuel surcharge to its shipping rates. A shipping volume in the month for the year. In the health care sector, contacts stated that demand for services remains strong and steady. Some of the hospitals in the District are considering expansion of their facilities to accommodate the number of increasing health care consumers and to accommodate the number of increasing health care consumers and to accommodate the number of increasing health care consumers and