Beige Book

January 17, 2007

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

Summary

Reports on the Federal Reserve Bank of Minneapolis and Kansas City districts were limited to telephone interviews with a few contacts because the Reserve Banks' offices were closed due to severe weather.

Economic activity continued to grow at a moderate pace in most districts. Reports on manufacturing were generally positive, though a few districts noted that production had expanded at a modest pace since the last report. The New York and San Francisco districts reported that manufacturing activity had picked up, while the Chicago district noted a slowing in overall activity. The Minneapolis district reported that activity was mixed across industries.

Districts generally reported modest increases in retail sales, and vehicle sales were thought to have been boosted by incentives offered by automakers. Retailers in the Boston district reported that recent cold weather and holiday closures dampened sales, but expected a pickup in the intermediate term. Manufacturing activity continued to expand in most districts, with reports of increases in new orders and shipments. Manufacturers in the Philadelphia district noted that the pace of growth had slowed somewhat, while those in the Richmond district reported that activity had picked up. Manufacturing activity was mixed in the Atlanta district, with declines in textiles and furniture. Leading activity was mixed, with commercial real estatemarket leading generally up and residential real estate market leading generally down. Reports on the labor market were mixed, with employment and wages generally up and the quantities and hours generally unchanged. Reports on prices were mixed, with some districts reporting increases and others reporting declines.

Districts reported generally described future market conditions as optimistic and cited a number of factors underlying their expectations for growth. Contacts in the Boston district reported that business leaders were the most optimistic they had been in several years. Contacts in the Richmond district noted that consumer confidence had improved, and contacts in the Atlanta district reported that they were optimistic about the near-term outlook for retail sales and the number of seasonal casual and entertainment hires over the holidays.

Consumer Spending and Tourism

Reports on consumer spending were mixed, with the Second District described as much weaker than expected, the Fifth District as somewhat weaker than anticipated, and the Eighth District as somewhat stronger than anticipated. Contacts in the Boston district reported that the Christmas season was disappointing, and those in the Philadelphia district noted that sales were below expectations. Retailers in the Richmond district reported that sales were slightly above expectations, while those in the Atlanta district reported that sales were in line with expectations. Contacts in the Chicago district noted that sales were slightly above expectations, while those in the Minneapolis district reported that sales were slightly below expectations.

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Tourism

In the Boston district, the summer tourist season was described as "good," while the fall season was described as "disappointing." Tourism in the Philadelphia district was described as "strong." Tourism in the Richmond district was described as "mixed," with some districts reporting increases and others reporting declines. Tourism in the Atlanta district was described as "slow." Tourism in the Chicago district was described as "strong." Tourism in the Minneapolis district was described as "mixed." Tourism in the Kansas City district was described as "strong." Tourism in the San Francisco district was described as "strong." Tourism in the Dallas district was described as "mixed," with some districts reporting increases and others reporting declines.

Manufacturing

Reports on manufacturing were generally positive in the Boston, Philadelphia, Richmond, Atlanta, St. Louis, Kansas City, San Francisco, and Dallas districts, while reporting activity was reported to be mixed in the Chicago district and slightly down in the Minneapolis district. Contacts in the Boston, Philadelphia, Richmond, Atlanta, St. Louis, Kansas City, San Francisco, and Dallas districts reported increases in new orders, while reporting activity was reported to be mixed in the Chicago district and slightly down in the Minneapolis district. Contacts in the Boston, Philadelphia, Richmond, Atlanta, St. Louis, Kansas City, San Francisco, and Dallas districts reported increases in shipments, while reporting activity was reported to be mixed in the Chicago district and slightly down in the Minneapolis district.

Real Estate and Construction

Nearly all Districts reported a continued softening in housing markets. High inventories of unsold single-family homes were widely reported, and sales were generally described as slow. While single-family construction weakened, New York saw multifamily activity in pace with the city's strong job growth. Nonresidential construction was mixed, with reports of strength in the Boston, Philadelphia, Richmond, Chicago, Kansas City, and San Francisco districts. Contacts in the Atlanta district described nonresidential construction as slowing, and contacts in the Dallas district reported a mixed picture, with declines in the Houston area more than offset by gains elsewhere in the district. Minneapolis reported increasing commercial construction.

Agriculture and Natural Resources

All Districts reported cold, dry weather in December, which set a modern record in the Kansas City district. Contacts in the Boston district reported that the cold weather boosted demand for fuel oil and natural gas, but dampened demand for other products. Contacts in the Richmond district reported that the cold weather had a positive impact on sales of winter apparel and boots, but a negative impact on sales of fall apparel and sandals. Contacts in the Atlanta district reported that the cold weather had a positive impact on sales of winter apparel and boots, but a negative impact on sales of fall apparel and sandals. Contacts in the Chicago district noted that the cold weather had a positive impact on sales of winter apparel and boots. Contacts in the Minneapolis district reported that the cold weather had a positive impact on the sales of boots and Minnesota-made fleece outerwear.

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Services

Reports on the services sector generally remained in new districts since the last report. Districts from New Hampshire, Richmond, St. Louis and San Francisco reported that activity in the services sector had increased. Districts from Philadelphia, Cleveland, Atlanta, Chicago, Minneapolis, Kansas City and Dallas reported that activity had remained unchanged. The Boston district reported that activity had decreased. Districts from Philadelphia, Richmond, Atlanta, Chicago, Minneapolis, Kansas City and San Francisco described wage increases as moderate. Districts from Boston, St. Louis and Dallas described wage increases as modest. Districts from Philadelphia, Richmond, Atlanta, Chicago, Minneapolis, Kansas City and San Francisco described wage increases as moderate. Districts from Boston, St. Louis and Dallas described wage increases as modest.

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Banking and Finance

Reports on banking and finance were mixed, with commercial and industrial lending generally up while consumer lending was unchanged and refinancing continued to weaken. The Fifth, Seventh, Eighth, Ninth, Tenth, Eleventh, and Twelfth districts reported increases in commercial and industrial lending. Contacts in the Fifth, Seventh, Eighth, Ninth, Tenth, Eleventh, and Twelfth districts reported increases in consumer loan volume. Contacts in the Fifth, Seventh, Eighth, Ninth, Tenth, Eleventh, and Twelfth districts reported increases in residential mortgage refinancing. Contacts in the Fifth, Seventh, Eighth, Ninth, Tenth, Eleventh, and Twelfth districts reported increases in residential mortgage refinancing.

Labor Markets

Reports on labor markets were mixed, with employment and wages generally up and the quantities and hours generally unchanged. Reports on the labor market were mixed, with employment and wages generally up and the quantities and hours generally unchanged. Reports on the labor market were mixed, with employment and wages generally up and the quantities and hours generally unchanged. Reports on the labor market were mixed, with employment and wages generally up and the quantities and hours generally unchanged.

Districts reported hiring. Districts reported scattered, moderate gains in wages. Districts reported scattered, moderate gains in wages. Districts reported scattered, moderate gains in wages. Districts reported scattered, moderate gains in wages. Districts reported scattered, moderate gains in wages. Districts reported scattered, moderate gains in wages. Districts reported scattered, moderate gains in wages. Districts reported scattered, moderate gains in wages. Districts reported scattered, moderate gains in wages. Districts reported scattered, moderate gains in wages. Districts reported scattered, moderate gains in wages. Districts reported scattered, moderate gains in wages.

Prices

Overall prices increased moderately. Prices for energy and a number of materials have eased from recent peaks. Districts reported that prices for energy and a number of materials have eased from recent peaks. Districts reported that prices for energy and a number of materials have eased from recent peaks. Districts reported that prices for energy and a number of materials have eased from recent peaks. Districts reported that prices for energy and a number of materials have eased from recent peaks. Districts reported that prices for energy and a number of materials have eased from recent peaks. Districts reported that prices for energy and a number of materials have eased from recent peaks. Districts reported that prices for energy and a number of materials have eased from recent peaks. Districts reported that prices for energy and a number of materials have eased from recent peaks.

▲ Return to top

First District--Boston

Economic activity in New England region ended on the strong months of 2006. Manufacturing and contacting were expanding, Boston retailers reported a very successful holiday season from a store. A number of retail contacts say they are disappointed by their sales results for the month of December. Tourism activity was described as strong. Commercial real estate activity was described as strong. Residential real estate activity was described as weak. Banking conditions were described as stable. Labor markets were described as tight.

Retail and Tourism

Retail contacts report that the Post-Holiday report retail results for the month of December and for the holiday season were disappointing. Retail contacts report that the 2006 holiday season year over year. Several respondents report sales increases, but indicate that they do not meet expectations.

A number consumer reports sales below 12 percent year over year increases for the holiday season. Retail contacts report that the unseasonably warm weather in December hurt sales. Retail contacts report that unseasonably cold "across the board" during the period from Thanksgiving through the end of December. Retail contacts report that the cold weather hurt sales of seasonal merchandise, pre-game retail activity was also hurt by the cold weather. Retail contacts report that the cold weather hurt sales of seasonal merchandise, pre-game retail activity was also hurt by the cold weather. Retail contacts report that the cold weather hurt sales of seasonal merchandise, pre-game retail activity was also hurt by the cold weather. Retail contacts report that the cold weather hurt sales of seasonal merchandise, pre-game retail activity was also hurt by the cold weather.

Sales were mixed for big jewelry in the commercial construction segment. Some contractors reported that sales were down substantially from last year, while others said that sales were higher. However, it was also noted that prices were well above the levels experienced in the previous year. Contacts reported that the demand for gold jewelry was strong, as other areas became of strong local demand. Also, contacts in coastal areas continued to report strong demand for commercial construction, while contacts in inland areas of the region reported that strong construction continued to report increases over sales. On the other hand, several contacts in areas providing assistance noted that they had successfully increased their sales in the previous year.

Agriculture and Natural Resources

Weather conditions were mostly favorable for District crops in late November and December. Warm and dry conditions allowed for the harvest of corn and soybeans to proceed at a brisk pace. Satisfactory planting and harvesting. For cotton growers, the harvest was also completed in a timely manner. Contacts reported that the quality of the harvested cotton and tobacco and other alternative fuel industries remained strong in the District.

▲ Return to top

Seventh District--Chicago

Summary

Economic activity in the Seventh District continued to expand during November and December. Reports from a broad range of contacts indicated that consumer spending continued to increase at a pleasant pace. Business spending and hiring were again mixed, but on balance, showed some improvement over the previous report. Housing declines were smaller. Nonresidential construction expanded slowly. Manufacturing activity increased at a moderate pace. Auto sales were flat. Retail sales increased at a moderate pace. Agricultural sales continued healing too. Mild changed Overall, earnings growth pressures continued to ease a bit, while overall wage increases were similar as in the previous report. Prices of raw materials increased at a faster pace, while prices for finished items were flat, spring, reflecting changes in relative prices.

Consumer spending

Consumer spending continued to increase at a gradual rate in November and December. Retailers and auto dealers said "near expectations" and were "quite pleased" with recent sales. The recent months strength came from discretionary and apparel, contacts were surprised by the strength in sales of winter clothing, given the relatively warm weather. Sales were also flat in the rest of the country. Inventories were in line with normal levels. Vehicle sales were flat in November and December. Sales of domestic models were unchanged, while sales of foreign models were flat. Dealers in Michigan were slightly more optimistic than dealers in other parts of the District. Dealers in Michigan were also more optimistic in the District. The low contacts in the District. Consumer credit remained tight. Delinquency rates and charge-offs were unchanged. Auto loans were tight, while credit card loans were tight. Mortgage credit was available to prime borrowers, but was tight for subprime borrowers, reflecting lower energy prices and weaker housing.

Business spending

Business spending and hiring was spotty in the District. Capital spending continued to increase at a moderate rate as the previous reporting period, though was mild rates have reported plans to increase capital outlays this year and a manufacturer said the bulk of their capital spending is for IT. Other manufacturers reported that capital spending has remained unchanged, but remained by selected. Automakers and a heavy equipment manufacturer reported that capital spending was unchanged. Contacts reported that they were holding steady or raising back on shifts. One retailer said it was hiring but no more than in the past. Other retailers said that hiring was unchanged. Temporary help services providers said that hiring was flat in the District. Some small, but long-in-gone conversions and permanent placements were strong.

Construction and Real Estate

Nonresidential construction continued to fall in the District, though the declines were smaller than in the previous reporting period. Nonresidential activity in Michigan, while one contact said that activity was "dead as a doornail." Contacts in the rest of the District said that activity remains increased high and that showrooms with expect future increases. Residential real estate activity was mixed in the District. Activity was flat in Michigan, while many builders were adding new price incentives to sell new homes. Nonresidential construction continued to fall in the District, though the declines were smaller. Activity in other parts was strong in some areas in the District. One low contacts in the District. Commercial vacancy rates were little changed and there were no reported cancellations of projects. Prices were flat to down slightly in the District. Contacts reported that, reflecting lower energy prices and weaker housing.

Manufacturing

Manufacturing activity expanded at a slower pace in late November and December than in the previous reporting period. Contacts reported production increased at a steady pace and unchanged in the previous reporting period. Production increased at a steady pace, though slightly slowing up a bit. Delinquency rates on mortgages and home equity loans remained at low levels. Delinquency rates on credit card loans were unchanged. Delinquency rates on auto loans fueled lending remained steady, supported leasing activity continued to show solid growth. Commercial mortgage lending was unchanged. Business loans increased at a moderate pace, up significantly from a year ago. A nonsecured real estate developer said there was still "lots of money" available for construction projects. Contacts reported that the lending terms and pricing on commercial loans continued to be competitive and standard, one category increased narrow.

Prices and costs

Overall, the average price pressures continued to ease a bit, while overall wage increases were similar to the previous reporting period. On net, raw materials prices were down slightly in November and December. Prices of finished goods were flat. Retail prices were flat. Auto prices were flat. Prices of apparel were unchanged from previous. Technicians reported further price hikes. Equipment vendors reported price increases for construction machinery and equipment. Prices for heavy trucks were unchanged. Prices for steel were flat. Wholesale furniture prices were flat, and one retailer said that prices were flat. Prices for building materials were flat. Prices for paper products were flat. Contacts reported that promotional activities for the holidays were within normal levels. Hotel room rates were flat. Prices for food were flat. Prices for energy were down slightly. Wage increases in the District were similar to similar rates as in the previous reporting period. Increases in wages were flat. Contacts said that wages had not surged on their wages. One contact said that wages were "generally moderate."

Agriculture

During the reporting period, corn prices hit the highest level in over a decade, and soybeans hit the highest level in over a year. Contacts reported that the high prices were attributed to the weather, the ethanol industry, uncertainties as well as a reduction in fertilizer costs for farmers. Contacts reported that the high prices were attributed to the weather, the ethanol industry, uncertainties as well as a reduction in fertilizer costs for farmers. Farmers in the District were in the process of harvesting their crops. Farmers in the District were in the process of harvesting their crops. Farmers in the District were in the process of harvesting their crops