June 10, 2009

Summary of Commentary on Current Economic Conditions

by Federal Reserve District

Summary

Reports in the Federal Reserve Bank of Atlanta and Kansas City districts indicate that, in May and early June, economic activity continued to contract at a moderate pace. Reports in the other districts indicate that the pace of contraction slowed.

Consumer spending was mixed. Several districts reported disappointing May retail sales results and cited unseasonable weather as the principal reason. Of the reports mentioned that gave specific price data, most reported a modest increase in prices. Almost all reports on auto sales cited increases in sales of domestic models, but sales of imported models were mixed.

Manufacturing activity declined in most districts, although the pace of decline slowed in many districts. Activity in the nonfinancial services sector also declined in most districts.

Labor market reports in most districts indicate that employment levels moderated, but several regional retail centers cited large but unsuperstitious net hiring intentions.

Consumer Spending

Reports from the Atlanta, Chicago, and Kansas City districts indicated that May sales and inventories were disappointing. Sales were reported to be down from April in the Atlanta and Kansas City districts, and the Chicago report characterized May sales as "lackluster." Sales were reported to be flat in the Cleveland and Richmond districts and up slightly in the Philadelphia District. Chicago retailers described their inventories as "bloated," and Kansas City retailers described their inventories as "heavy." Contacts in the Atlanta, Philadelphia, Dallas, Chicago, and Minneapolis districts reported that unseasonably cool weather in May contributed to the weakness in sales. Contacts in the Atlanta and San Francisco districts cited increases in prices.

Services and Tourism

Reports from the Atlanta, Richmond, and Dallas districts indicated that May sales and revenues declined, while reports from the Chicago and Kansas City districts indicated that May sales and revenues were flat. Reports from the Boston, Cleveland, and San Francisco districts indicated that declines in sales and revenues moderated in May. Reports from the Philadelphia, Richmond, and Chicago districts indicated that declines in employment moderated in May. In the Cleveland and Chicago districts, employment was reported to be flat. In the Minneapolis district, employment was reported to be down slightly. Reports from the Boston and Kansas City districts indicated that declines in employment continued to deepen.

Manufacturing

Reports indicated that manufacturing activity continued to contract, although several districts reported that the pace of contraction slowed. Reports from the Boston and Richmond districts indicated that production and new orders increased. Reports from the Philadelphia, Cleveland, Chicago, Minneapolis, and Kansas City districts indicated that production was declining, but the pace of decline slowed. Reports from the Atlanta, Dallas, and San Francisco districts indicated that production was declining at a faster pace. Reports from the Boston, Richmond, Chicago, Minneapolis, and Kansas City districts indicated that new orders increased or declined at a slower pace. Reports from the Atlanta, Dallas, and San Francisco districts indicated that new orders declined at a faster pace.

Construction and Real Estate

Reports from the Boston and Richmond districts indicated single-family construction activity declined, but at a slower pace than in recent months. Philadelphia and Minneapolis contacts reported that single-family construction activity was flat. Reports from the Cleveland, Chicago, and Kansas City districts indicated that single-family construction activity declined at a slower pace than in recent months. In the Atlanta, Dallas, and San Francisco districts, single-family construction activity declined at a faster pace than in recent months. Reports indicated that, in many districts, the pace of decline in multifamily construction activity slowed. In the Chicago district, multifamily construction activity was reported to be flat. In the Atlanta district, multifamily construction activity was reported to be down slightly. Contacts in the Dallas district reported that multifamily construction activity declined at a faster pace than in recent months.

Banking and Finance

Reports from the Boston and Kansas City districts indicated that commercial real estate loans declined. Most Districts cited increases in commercial banking activity, although several districts reported that the increases were due to the transfer of loans from affiliates to commercial banks. In some cases, commercial banks in the Atlanta, Chicago, and Kansas City districts reported increases in commercial real estate loans due to the transfer of loans from affiliates to commercial banks. In the Atlanta district, the increase in commercial real estate loans was reported to be due to the transfer of loans from affiliates to commercial banks and to the purchase of loans from other banks. In the Chicago district, the increase in commercial real estate loans was reported to be due to the transfer of loans from affiliates to commercial banks and to the purchase of loans from other banks. In the Kansas City district, the increase in commercial real estate loans was reported to be due to the transfer of loans from affiliates to commercial banks and to the purchase of loans from other banks. Reports from the Boston, Richmond, Chicago, and Kansas City districts indicated that demand for commercial real estate loans declined at a faster pace than in recent months. Reports from the Atlanta, Dallas, and San Francisco districts indicated that demand for commercial real estate loans declined at a slower pace than in recent months.

Labor Markets and Prices

Reports from the Boston, Philadelphia, and Kansas City districts indicated that employment declined, while reports from the Chicago district indicated that employment was flat. Reports from the Atlanta, Cleveland, Richmond, Minneapolis, Dallas, and San Francisco districts indicated that employment declined slightly. Reports from most districts indicated that the pace of the past through of earlier increases in energy costs. Several districts noted increases in the prices of food products. Reports from the Boston, Richmond, and Kansas City districts indicated that prices declined. Reports from the Atlanta, Chicago, Minneapolis, and San Francisco districts reported that prices increased slightly. Reports from the Cleveland, Philadelphia, Dallas, and San Francisco districts reported that prices increased at a faster pace than in recent months.

Agricultural and Natural Resources

Reports from most districts indicated that farm income declined in the second quarter from the first quarter. Reports from the Chicago district indicated that farm income increased. Reports from the Atlanta, Chicago, Minneapolis, and Kansas City districts indicated that the pace of farm land prices declined. Reports from the Boston, Richmond, Dallas, and San Francisco districts indicated that the pace of farm land prices increased. Reports from the Atlanta, Chicago, Minneapolis, and Kansas City districts indicated that the pace of farm land sales declined. Reports from the Boston, Richmond, Dallas, and San Francisco districts indicated that the pace of farm land sales increased.

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First District--Boston

Business contacts reported continued growth in the New England economy, although some districts reported a modest pace. Retailers are mainly optimistic on sales, while manufacturers and software and information technology (IT) services firms indicate that business is flat to down. Tourism is mixed, with some reporting increases in visitors and others reporting declines. Commercial real estate is generally weak, and residential real estate is mixed. Banks report that loan demand is down.

Retail

Retailers reported somewhat strong increases in April same-store sales from a year earlier, although some districts reported declines. Contacts in the Boston and Providence districts blame bitter, windy, March weather and heartless economic uncertainty for the disappointing sales. Contacts in the Boston and Providence districts are optimistic that pent-up demand will lead to strong sales in coming months. Retailers in the Boston district are also optimistic that the stimulus checks will help sales. Contacts in the Boston district are cautiously

Construction and Development

Residential construction and real estate activity were mixed by location and market segment. Activity was generally strong in the suburbs and exurbs, but slow in the urban core and inner suburbs. The condominium market was soft. The supply of unsold single-family homes fell slightly in Milwaukee, but ticked up in the Detroit area. Commercial real estate development continued to be concentrated in the suburbs and exurbs, with little activity in the urban core. Activity in Detroit noted a further slowdown in commercial development there and attributed the decline to the weak performance of the auto industry. On balance, commercial vacancy rates and rents were little changed. Activity in the industrial real estate market was mixed. Contacts in Detroit reported concern over excess short-course space in parts of Iowa.

Manufacturing

Manufacturing activity continued to expand in the District during April and May, though the rate of increase slowed in many industries. Heavy machinery producers reported slower growth in shipments for equipment. Activity in the steel market was reported to "stagnate and remain flat." Auto production was reported to be unchanged from previous estimates. Auto assemblers reported some slowdowns in orders, but auto parts and machinery producers reported demand firmed toward the end of May. Shipments of wallboard and cement continued to increase, but at a slower pace than in previous months. Shipments of lumber and other building inventories were said to be extremely tight nationwide, though an increase in imports had reduced the number of shortages in the southeast. Manufacturers also reported continued increases in prices, though the pace of increase was reported to have slowed in some industries. The tight stocks sector remained weak. Manufacturers reported that inventories of their products were lean, and that they were operating at high rates of capacity utilization. Nonetheless, contacts remained optimistic and maintained their forecasts for tight stocks throughout the year. Activity in the high-tech sector was mixed. Producers reported a drop in orders, though order backlogs remained high and R&D rates continued to increase.

Banking and Finance

Loan activity picked up from the previous reporting period. Business loan demand continued to improve, with broad based gains across market segments and loan types. Commercial real estate loan demand was reported to be strong. Consumer credit improvement is now occurring more and the number of cards on to reach 3rd. Demand for mortgage loans was reported to be strong, with a number of contacts noting a pickup related to competitive pressures, but they added that there had been no further easing. Household loan demand was reported to be flat. Credit quality was reported to be stable to improving, with delinquencies and earnings for mortgage refinancings increased slightly. Consumer credit quality was generally good and little changed from earlier in the year. Contacts reported that spreads for business and household loans remained narrow due to competitive pressures.

Prices and Costs

Overall rates of price increases throughout the supply chain, but overall cost and price increases were moderate. Contacts reported that they had been able to pass on the increases, but prices increases had not been passed on to finished and declined inventories. Retailers reported some success in raising the prices of their products to cover higher costs. However, they noted that the pace of increases had slowed in recent months and that they expect that they had reached at the year. Few applications were focusing on covering their cost increases through productivity improvements. At the retail level, reports of price increases were mixed. Some retailers reported increases in the range of 2 to 3 percent, while others reported modest. The rate of Wisconsin received the minimum wage at the beginning of May, a increase of 5 percent of the state's workforce.

Agriculture

Spring planting proceeded at a quick pace, reducing winter draft in acreage from soybeans to corn. Corn development was slightly behind a year ago in all District states, though ahead of the five-year average. Soybean planting was reported to be ahead of last year's pace in all District states. Crop prices in the 9 year average in most of the District. Moderate drought conditions existed from central Illinois into Michigan, with much of Wisconsin and northern Indiana behind on moisture. Pasture conditions were poor to fair in most areas. Winter wheat was reported in high yields, but mainly troubled the summer could still produce a good harvest. As poor weather pushed up lettuce prices, store farmers locked in prices on at least part of their fall crops. Milk prices in the District rose 2 percent in April, according to the Chicago Mercantile exchange, well a little more than we higher prices. Hay prices were down 10 percent from a year ago. Cattle prices were down 3 percent from a year ago. Hog prices increased 4 percent from the fourth quarter of 2004 to the first quarter of 2005.

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Eighth District–St. Louis

The economy of the Eighth District has continued to expand since our previous survey. A variety of sectors reported increases in activity, and the pace of hiring has quickened. The service sector continued to expand. Retail sales in April and May increased over year-earlier levels, and auto sales were strong. Activity in the manufacturing sector was mixed. Commercial real estate market conditions were steady. Lending conditions at a sample of District banks remained stable in the past three months.

Consumer Spending

Retail sales increased year-over-year in April and May increased over year earlier levels. While 47 percent of the retailers surveyed noted that sales levels met their expectations, 37 percent reported that sales were below what they had anticipated, and 20 percent reported sales above expectations. Sales of building materials and garden supplies were strong, as were sales in a variety of strong sectors, while home decor, seasonal items, and apparel were down 5.4 percent from a year ago. Auto sales were strong in April and May. Unit sales of light vehicles in the Eighth District Metropolis declined to 19.9 from 19.7 in the fourth quarter of 2004, while the St. Louis MSA declined to 19.9 from 20.1. Sales of domestic cars and trucks increased, while sales of construction permits issued in April for Evanham, Arkansas. Contacts in northern Mississippi reported that new commercial space increased in the first quarter of 2005 compared to the same year-ago In-west Tennessee, contacts reported moderate improvements in plant expansions.

Banking and Finance

A recent survey of senior loan officers at a sample of District banks indicates little variation in lending standards over the past three months. During the period, credit standards for commercial and industrial loans were somewhat tighter, while demand remained unchanged. Standards and demand for consumer loans were unchanged. Standards and demand for real estate loans were unchanged. Respondents indicated that the demand for commercial real estate loans was somewhat stronger, while the demand for consumer loans was somewhat weaker.

Agriculture and Natural Resources

Farmers in the region completed the wet May planting of all major District crops is ahead of their five-year average pace, with soybean and sorghum significantly ahead of normal. Because of the wet weather, some farmers have had to replant crops. Crop conditions are mixed. Much of the soil moisture ratings in Arkansas, Illinois, Missouri, and Tennessee were reported to be less than adequate at the end of May.

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Ninth District–Minneapolis

The Ninth District economy displayed moderate growth since the last report. Growth was evident in consumer spending, manufacturing, construction, energy, and mining. However, tourism and agriculture were mixed. Labor markets were tight, and upward pressure on wages grew slightly. Significant price increases were noted in health insurance, natural gas, and energy.

Consumer Spending and Tourism

Consumer spending increased at a moderate pace overall. Retailers in the Twin Cities and Rapid City reported that sales were up more than 5 percent from a year ago. May retail sales were up 4.5 percent from the same period a year earlier. A. Ted Pass also reported that sales were up 5 percent from a year ago. Retailers in Duluth reported that sales were down slightly from a year ago. Auto sales were generally slow throughout the district due to unseasonably cool weather.

A Mr. Paul area auto dealer noted sales of domestic cars and trucks were down over 30 percent in May compared with a year ago. A representative of an auto dealers association in Minneapolis noted that sales in April and May were down from a year earlier.

Spring tourism in the district was mixed. Activity in the Twin Cities area was reported to be strong. Attendance at the Minnesota Zoo was up 5 percent from a year ago. According to an official, South Dakota tourism activity was down in April and May compared with the same period a year earlier. However, Rapid City reported that advance bookings for the summer season were higher than a year ago. Bookings for 2005 within the state visitor trends were at encouraging levels for Montana's summer tourism season, although bookings were down 5 percent over last year.

Construction and Real Estate

Activity in the district construction sector was solid. Construction for industrial space increased in the Twin Cities area, Rapid City, and Sioux Falls. The Twin Cities industrial vacancy rate is expected to remain high. The U.S. Congress approved $90 million for military-related construction projects in Montana. Contact awards for large construction projects in the Twin Cities area were up 10 percent in April and May. Residential construction with the same period a year ago. However, during the three-month period ended in April, housing units authorized in district states were down 7 percent compared with the same period a year earlier.

Real estate markets were mixed. Home foreclosures through April were up 17.5 percent from the Minneapolis St. Paul area from the same period a year earlier. A St. Paul Realtor reported that the number of homes for sale was down from a year ago, and that homes were selling faster than they were selling prices. However, residential real estate markets in some other district cities, such as Fargo, N.D., and Duluth, Minn., remained strong. The Minneapolis St. Paul commercial real estate market continued to recover, and growth in the industrial and retail markets remained at a strong pace.

Manufacturing

Manufacturing activity expanded. A May survey of purchasing managers by Creighton University in Omaha, Nebraska, indicated that manufacturing activity grew in Nebraska, South Dakota and local activity in Minnesota. The survey indicated that durable goods manufacturing activity was expanding at a faster pace than nondurable goods manufacturing. Contacts at a Minnesota paper mill reported increased demand for high-value specialty paper and little excess capacity. At North Dakota, a backhoe manufacturer recently announced a major expansion. Activity in the high-tech sector was mixed. Activity at a Minnesota firm that manufactured is building a new facility in Minnesota However, a major automobile assembly plant in Minnesota furloughed workers for several weeks since the last report.

Energy and Mining

Activity in the district's mining sector increased. Oil and gas exploration and production increased significantly from early April through mid-May In southern Minnesota, Construction of a new ethanol plant was completed in April. Construction of a new ethanol plant was completed in April. Construction of existing plants and several new mines are planned in the district.

Agriculture

Economic activity in the agricultural sector was mixed. District farmers had problems getting into the fields because of wet weather. Planting progress was slow. As of May 22, the proportion of corn planted was significantly behind the 5-year average. Soybean planting progress was also behind the 5-year average. Wheat planting progress was ahead of the 5-year average. The USDA reports that the average price of Minnesota farmland is up 12 percent from a year ago.

Employment, Wages, and Prices

Labor markets in the district remained tight. In Minnesota, a July drive representative reported that 100 jobs this year due to strong demand, and a biofuel mill sixth sales and distribution center in Minnesota. Other manufacturers reported that they were hiring. The Twin Cities area added about 30K workers. Members of the Minneapolis Early Advisory Council in North Dakota expect some improvement in vehicle sales in the months ahead. Travel and tourism contacts in Montana reported that they were hiring. The Twin Cities unemployment rate was 4.1 percent on Wednesday, down five percentage points, and occupancy rates in some hotels were at the highest level in several years. Most hotel and resort operators were optimistic about the summer travel activity, expecting 10% or very improve high positive prices.

Manufacturing

Manufacturing activity was largely stable in late April and May following two years of strong growth. Production and shipments generally picked up and inventories were lean. Several firms noted increased supplier delivery times, as truckers were avoiding less than truckload shipments because of high fuel costs. Manufacturers reported that they had to pay up and/or to allow jobs for the period. Sales of many types of apparel were characterized as particularly strong, while sales of home items were weak at several stores. A number of stores reported that sales of fabrics and crafts were unusually strong in comparison to the rest of the current sales in each. Nearly all store managers were optimistic about next year's prospects. Most vehicle sales were flat compared with the previous survey and were below plan at dealerships. Sales of trucks were reported to be strong. Sales of vehicles in April and May 95% and trucks were reported to weak in most areas, while smaller and more fuel efficient vehicles were reported to be strong. Dealers reported that they had adequate supplies. Most dealers expect some improvement in vehicle sales in the months ahead. Travel and tourism activity was reported to be mixed to slightly weak. Most hotels reported that occupancy rates were lower than a year ago, but room rates, and occupancy rates in some hotels were at the highest level in several years. Most hotel and resort operators were optimistic about the summer travel activity, expecting 10% or very improve high positive prices.

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Real Estate and Construction

Activity in the real estate and construction sectional solid in late April and May, and commercial real estate activity remained slightly. Builders reported that home starts were generally unchanged since the previous survey and down slightly from year ago levels, although still high by historical standards. Sales of existing homes were reported to be strong, but were also down. Real estate agents reported increased home sales from both the previous survey and a year ago. As in the previous survey, agents in several cities noted that sales were being restricted by the lack of listings. Most agents expect sales to remain strong, but at a moderate rates throughout the district. Most agents expect slight increases in home sales and home prices in coming months. Mortgage lenders generally reported increased mortgage activity since the previous survey. Most lenders reported that the level of mortgage activity remains below an refinancing activity was flat Overall, mortgage lenders remain optimistic about the near-term outlook for mortgage activity. Commercial real estate activity was reported slightly in late April and May. Vacancy rates edged down in several cities, and rents edged up slightly. Most contacts expect that commercial real estate activity will remain active in the months ahead.

Banking

Bankers report that loans edged up and deposits decreased slightly since the last survey. Bankers report that consumer activity remained slightly since the last survey, and most respondents noted that consumer lending rates. Lending Commercial real estate loans were reported to be strong, with increases in both the level and pace of the year. In some cases business they invested heavily in information technology in 2004.

Energy

District energy activity remained strong in late April and May. The count of active oil and gas drilling rigs in the region was basically unchanged from the previous survey but still much higher than a year ago. Most oil and gas producers remain optimistic about drilling activity in the months ahead, as energy prices are expected to remain high. In addition, several contacts noted that the recent increase in natural gas prices has made the exploration of the tar sands, in both the Canadian and Montana portions of the region, more economically attractive.

Agriculture

Agricultural conditions in the district weakened somewhat in late April and May. A late spring snowstorm in the northern portion of the district delayed the start of spring fieldwork and reduced producers to replant crops. In addition, producers reported that the condition of the winter wheat crop had deteriorated somewhat since the previous survey due to drought and frost damage. Pasture conditions were poor to fair in most areas. Winter wheat was in poor to fair shape. Farmers' capital spending for the rest of the year is expected to decline somewhat from the high levels of 2004, as many farmers completed their capital purchases last year.

Labor Markets and Wages

Labor markets in the district continued to firm in late April and May, but wage increases remained modest. Private-sector hiring increases since the previous survey exceeded year-ago levels in most areas. Manufacturers reported that the number of workers hired was announced in May were expected to boost both ordinary and civilian employment in the district. The percentage of firms reporting worker shortages was slightly less than in recent surveys. Shortages were most widespread in the energy industry and were also reported in high-tech sectors, eg, workers, welders, machinists, and both metro level and experienced workers. Wage increases remained moderate. Manufacturers reported that the number of workers hired was offers compared with recent years. Firms generally reported that wage increases remained modest, but some contacts said benefit costs rose more than normal.

Prices

Overall price pressures persisted at the retail level in late April and May, while price pressures eased somewhat at the wholesale level. As in the previous survey, most retailers reported that selling prices were a little more or less unchanged from selling prices in effect about six weeks earlier. Retailers in the Cleveland area reported that they had been able to pass on the higher prices to their customers. Some companies reported that they had been able to pass on the higher prices to their customers. Some companies reported that they had been able to pass on the higher prices to their customers. Some companies