Beige Book

December 2, 2004

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

Summary

Reports in the Federal Reserve Bank of Dallas and Board of Governors offices indicate November 22 economic activity continued to grow at a moderate pace. Manufacturing activity remained strong, and retail sales were generally solid. Auto sales were mixed.

Overall consumer spending was positive since the last Beige Book, with only a few Districts reporting weakness. Retailers in most Districts were pleased with sales during the Thanksgiving weekend, although some noted that shoppers were more cautious than in the past. Auto sales were mixed, with some Districts reporting declines and others reporting increases. Tourism continued to show signs of recovering in a number of Districts. Nonresidential activity, while generally positive, was mixed. Commercial real estate markets were reported to be tight in the northern Districts hardest hit by overbuilding, but the pace of investment and leasing activity was picking up. Reports from the energy Districts indicated that drilling activity remained strong, but recent natural losses and natural capacity of crude resources will impact refined activity. Residential real estate markets were mixed, with some Districts reporting slowing home sales and others reporting strong sales.

Consumer Spending

Consumer spending was positive here and Dallas to mid-December. Retail sales increased moderately in the Boston, Philadelphia, Richmond, Atlanta, Chicago, Minneapolis, and Kansas City districts. Sales were down in the Boston and Richmond districts. Sales were mixed in the New York, Cleveland, St. Louis, Dallas, and San Francisco districts. Sales, Kansas City and New York Districts reported that demand for premium auto dealerships remained strong, while demand for mid-range and low-end dealerships remained sluggish. Auto inventories were reported to be at comfortable levels in the Chicago District. Auto inventories were reported to be at comfortable levels in the Chicago District. Auto inventories were reported to be at comfortable levels in the Chicago District

Manufacturing and Transportation

Reports from the factory sector were weakly positive, boosted by increased regional demand for transportation equipment, particularly in connection with the ongoing expansion of the building materials segment. In some cases, plants were operating at capacity. Defense and aerospace contractors also reported increased activity, as the federal government's military procurement plans were announced. Reports noted that new orders increased and manufacturing production rose only mod- erately. However, oil refineries remained hampered by reduced supplies of crude oil. Some chemical manufacturers continued to report strong demand for freight services through Hartford and early November.

Tourism and Business Travel

Reports from the tourism sector and hospitality industry indicated steady activity after the summer season. Hotel occupancy rates were reported to be in the 70 to 80 percent range, with room rates remaining relatively stable. Business travel was reported to be at about normal levels. Increased bookings for Super Bowl Beach and Polo Beach events were stronger than last year. Restaurant sales were reported to be steady, with some establishments reporting that they had new, several months to complete. Tourism sources officials expressed concern about possible effects of the proposed increase in the state sales tax on the tourism industry.

Housing

Residential activity remains steady, reduced to low and fairlevels for District farmers. The hurricanes seriously affected production levels for several Florida crops. The outlook for the winter vegetable crop is for production to be down from last year's record crop, but about the same as the 1964-1965 average. Prices for sheltered and unsheltered land were also expected to decrease substantially from last year's levels. Production of fruits and nuts was down. Reports indicated that this year's citrus crop might be larger than expected.

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Seventh District--Chicago

The Seventh District economy continued to expand at a moderate pace from late October through mid-November. Consumer spending remained relatively soft, but business spending increased further. Auto sales were reported to be down from the high levels of early fall. Sales of other consumer durables were characterized by the retail trade contacts surveyed as being steady to somewhat stronger. Nonfarm employment continued to rise, and the unemployment rate declined. Industrial production appeared to have increased further, but at a slower pace than in the third quarter.

Consumer spending

Retail sales in the District remained relatively soft from late October through mid-November. Automotive dealers continued their sales promotion events, carrying on at the record pace of the previous month. Sales of other consumer durables were characterized by the retail trade contacts surveyed as being steady to somewhat stronger. Sales of nondurable goods were reported to be steady to strong. Department store sales in the District during the first two weeks of November were 3 percent above the corresponding period last year. The property manager noted that amusement were benefiting from a general increase in leisure time activity. Sales of sporting goods were reported to be strong. Sales of new cars slightly higher than a year earlier, and used car sales were reported to be a bit above year-ago levels.

Business spending

Business spending continued to increase and more firms appeared to be hiring. Plant expansion plans remained at high levels, and inventory accumulation was reported to be moderate. Still, contacts again suggested that a large portion of inventory accumulation was unplanned. Steel producers reported that new orders increased substantially in October, expanding production capacity. Business travel and advertising continued to run relatively strong. Sales of office equipment were reported to be steady to strong. Auto sales declined significantly in October and early November after hitting all-time highs in September. New car sales in the Chicago area were reported to be down about 20 percent from the September rate of 1,000,000 annual rate. Dealers in the Detroit area reported that sales were down from last month's record pace, but remained relatively strong. Truck sales were reported to be steady to strong.

Construction and trade

Nonresidential construction activity increased slightly from late October through mid-November. Residential construction has been reported to be steady to somewhat stronger. Contacts in the building trades reported that housing starts remained strong even though sales were a little slower than earlier in the year. Apartment vacancy rates were reported to be relatively low in the Chicago area. Office space vacancy rates were reported to be relatively high, with a few contacts expressing concern of space overbuilding. Nearly 40 percent of contacts surveyed reported increased use of temporary help during the upcoming holiday season, and more than 80 percent of contacts expect that sales volume will be up from last year.

Car dealers in the District reported that, compared with last year, sales in the period from late October were slightly slower, on average. Nearly 60 percent of the car dealers surveyed reported that sales were down from last year's record pace, while 40 percent reported that sales were up. Most dealers reported that they had adequate stocks of new cars, and about 70 percent of the contacts surveyed reported increased use of rebates, while 10 percent reported decreased use. Nearly 80 percent of contacts expect that sales volume will be up from last year's level, while 20 percent expect sales to be down. Nearly 90 percent of contacts surveyed reported that they had adequate stocks of used cars, and about 70 percent reported increased use of rebates, while 10 percent reported decreased use. Nearly 60 percent of contacts expect that sales volume will be up from last year's level, while 40 percent expect sales to be down.

Agriculture

Farm income in the District remained high, boosted by increased crop production. Prices received by farmers for most farm products were down from last year's levels. Prices paid by farmers for farm supplies were also down from last year's levels. Farmland prices continued to increase at a moderate pace.

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Eighth District--St. Louis

Business activity in the Eighth District expanded modestly since our previous survey. In manufacturing, a majority of contacts reported gains in sales plants and late additional workers. Retail sales increased moderately in most areas, and inventories remained adequate. Retail and auto sales declined in September and October with respect to a year earlier levels, but sales of automobiles and other durable goods have been strong since mid-October. Nonfarm employment continued to rise, and unemployment declined further. Agricultural developments have been mixed, with crop harvesting ranging from below normal to substantially above normal.

Consumer spending

Retail sales in the small cities in September and October were down, on average, over the corresponding months of 1964. Sales of automobiles and other durable goods have been relatively strong since mid-October. Sales of new automobiles in the Louisville area were reported to be "equal" to early November, and inventories were ample. Sales of new automobiles in the Memphis area were reported to be above year-ago levels.

Manufacturing and Business Activity

In Louisville, building activity increased slightly from one last report. On the household side, the number of permits issued for new dwelling units increased moderately from previous levels. Nonresidential activity was down. There were no changes reported on mandate and fees for commercial buildings, and demand for business loans continued to increase moderately.

Construction and Real Estate

Reports on the factory sector in the Eighth District expanded moderately since our previous survey. In manufacturing, a majority of contacts reported gains in sales plants and late additional workers. Retail sales increased moderately in most areas, and inventories remained adequate. Retail and auto sales declined in September and October with respect to a year earlier levels, but sales of automobiles and other durable goods have been strong since mid-October. Nonfarm employment continued to rise, and unemployment declined further. Agricultural developments have been mixed, with crop harvesting ranging from below normal to substantially above normal.

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Construction and Real Estate

Residential construction continued on a strong pace. A mortgage broker in Fargo-Moorhead reported that new orders for homes continued to run at the record pace of last summer. Most loan- August mandate dates, apartment and home shortages, sales continues at a high level. Nonresidential construction has been reported to be relatively steady to somewhat stronger. Office space is still relatively tight in the Minneapolis-St. Paul area, and there is a shortage of office space in downtown Little Rock. There was some improvement in commercial construction in most other areas. Industrial construction has been picking up in Little Rock, and has been relatively strong in Louisville.

Banking and Finance

Bank loans in the Eighth District are a sample of District banks indicated that demand for business loans increased moderately in October. Loan demand in the Louisville area remained strong and demand for commercial and industrial loans remained unchanged for both large and small banks. Demand for business loans increased moderately in Memphis during October. Loan demand in the Little Rock area remained relatively unchanged. The demand for consumer loans increased moderately in most areas of the District. Demand for real estate loans remained strong in most areas. The residential mortgage loans varied from moderately to moderately stronger and the demand for farm loans was relatively unchanged.

Agriculture and Natural Resources

Recent rains in the District have improved pasture conditions and soil moisture levels. The winter wheat crop is in good condition. Reports indicate that the fall crop of corn is good in most counties in Illinois, Indiana, and Missouri, but it is below in average areas in the Louisville area. Soybean yields have been reported to be above average in most areas, with good to excellent conditions, and the first harvest is complete. November yield and final production estimates for soybeans are expected to be released on November 10. Cotton production in Illinois and Indiana, winter wheat planting in the District were in the balmost harvest of cotton.

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Ninth District--Minneapolis

The Ninth District experienced broad-based growth from October through mid-November. Signs of growth were noted in most areas: consumer spending, manufacturing, construction, mining, mining and agriculture. Farmers are about even with a year ago. Labor markets remained tight, with unemployment rates low and shortages of skilled workers reported in many areas.

Consumer Spending and Tourism

Retail sales in the District continued at a fast pace. A major Minneapolis-based retailer reported sales were only up 4 percent in October compared with a year ago, but sales in the first two weeks of November were up 10 percent. Sales in the Duluth area were up 5 percent compared with last year. A mail manager in Montana reported sales up about 7 percent compared with last year. Sales in the Fargo area were up 10 percent. A Minneapolis-based department store reported a 4 percent to 5 percent increase in prices for retail and wholesale trade. Sales of automobiles were reported to be strong in most areas, although retail sales slowed somewhat last month.

Manufacturing

Manufacturing activity remained strong in the District's leading industries. The Minneapolis-Duluth area's business paths (November) corporations from the manufacturing sector reported strong gains in employment and production. Sales of farm machinery in the Fargo area were reported to be increasing sharply by Congress Corporation. Sales of farm machinery in the Dakotas and Minnesota. A Minneapolis-based manufacturer of farm machinery reported that sales were up 10 percent in the first two weeks of November. Production in Rapid District factory plans to add 50 workers to accommodate higher sales. Production of farm machinery in the Fargo area was reported to be up 10 percent. Production of paper wage increases to range from 3 percent to 5 percent.

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An auto dealer in Minnesota reported that December generally slow traffic and sales compared with a year ago. November started a little stronger.

Autumn tourism activity was about even with a year ago. The number of visitors at tourist attractions in the Fargo area was down slightly from last year. Tourist activity in the Dakotas was reported to be about even with last year. Tourism in the Minneapolis area was reported to be down slightly from last year.

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Tenth District--Kansas City

The Tenth District economy expanded moderately in late October and early November. Most retailers posted substantial sales gains. Activity increased further, and labor markets remained tight in manufacturing and mining. Crop harvesting was completed in most areas, with yields generally near or above year-ago levels. Prices received by farmers for livestock and livestock products declined further, but prices received for most crops were unchanged or slightly higher.

Consumer Spending

Retail sales in the Tenth District increased further in late October and early November. Most store and mail managers reported sales gains over year-ago levels, and almost no stores reported declines from last year's sales. Sales of new cars were at a high level in late October, but activity moderated to a generally steady or somewhat slower pace in early November. Most dealers reported that stocks of new cars were adequate to meet demand. Sales of used cars were at a fast pace, and those that were not specifically advertised their leaner inventories to their lowest levels in recent months. Sales of other durable goods were generally at a high level. Sales for the second survey in a row and will slightly lower than a year ago in most areas. Most auto