The Federal Reserve Board

November 30, 2005

Summary of Commentary on Current Economic Conditions by Federal Reserve District

Summary

Prepared at the Federal Reserve Bank of St. Louis and based on information collected before November 21, 2005. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Economic activity continued to expand from mid-October through mid-November, according to reports from the twelve Federal Reserve Banks. Manufacturing and services activity continued to increase in most Districts. Retail sales increased in most Districts, but many Banks reported only modest year-over-year gains. Auto sales softened in a number of Districts in October. Generally, residential real estate market activity remained high, but many Districts reported a slowing or cooling of activity; many Districts also noted strengthening activity in commercial real estate markets. Residential mortgage lending slowed in several Districts. Hiring activity increased in many Districts, and some Banks noted a slight tightening in labor markets. Most Districts reported persistent input price pressures and concerns about high energy prices. Consumer price pressures increased moderately in some Districts, with mixed reports on firms' ability to pass through input prices to consumers. Agricultural conditions were generally positive.

Consumer Spending

The reports on retail sales in most Districts were generally positive. Atlanta, Minneapolis, Kansas City, and San Francisco noted an improvement since their previous report, while Chicago noted that sales continued to increase modestly in October and early November. Dallas noted good sales growth. In contrast, Richmond reported that sales growth had tapered off since their previous report. Compared with a year ago, sales were flat or up in Atlanta, mostly up in Kansas City, and only modestly up in New York. St. Louis reported a slight decrease in sales growth compared with last year; Boston, Philadelphia and Cleveland reported somewhat mixed sales growth. Several Districts reported that luxury items, electronics, and food were strong sellers, while winter apparel was a weak seller. Of those Districts reporting on inventories, most reported that inventories were generally at satisfactory levels; Philadelphia noted that some contacts implemented price cuts earlier than usual to stimulate holiday shopping. Several Districts reported that contacts were generally optimistic about the holiday shopping season. Contacts in Boston, Cleveland, Minneapolis, Kansas City, and Dallas were at least cautiously optimistic about the upcoming months, and contacts in Philadelphia, Atlanta, and St. Louis generally expected at least a moderate increase in sales over the 2004 holiday season. Some contacts in Boston and Kansas City, however, expressed concerns about the effect of high energy prices on consumer spending in the upcoming season.

Many Districts reported declines in auto sales. Atlanta and St. Louis both reported year-over-year decreases. Cleveland noted that auto sales declined further in October after a sharp decline in September; Richmond reported recent auto sales that were substantially weaker than in their previous report, and Kansas City reported declines in late October and early November. Chicago, Minneapolis, and San Francisco noted that recent sales were slow, while Philadelphia reported increased sales in November after a decline in October. Some Districts cited a lack of new incentive programs or the ending of pricing discounts as one reason for the declines. Several Districts noted that the shift from larger autos and sport utility vehicles toward more fuel-efficient vehicles continued. Additionally, Dallas and San Francisco noted a strong demand for foreign vehicles and soft or lower sales of domestic brands.

Manufacturing and Other Business Activity

Manufacturing activity increased in all Federal Reserve Districts except St. Louis, where activity was mixed. Atlanta reported improving conditions, as several facilities came back on line and post-hurricane demand remained strong in several industries. Philadelphia, Richmond, and San Francisco noted significant increases in activity among their manufacturers. In contrast, Dallas reported scattered softness in the demand for food products. Atlanta, Chicago, and Dallas reported strong demand for construction-related products. Steel producers reported strong demand in both the Chicago and Cleveland Districts. Chicago also saw strong orders for tool and heavy truck industries. Manufacturing activity in the Dallas District rebounded from mid-October to mid-November, with ongoing recovery of the facilities that shut down after the hurricanes. While Philadelphia reported moderate overall growth in demand, business weakened in November for makers of apparel, paper products, and industrial materials and equipment. Boston and Richmond reported significant declines in the furniture industry. Several Districts said largely positive reports nonetheless expressed concern over rising material and energy costs.

Most Districts reported increased activity in the services sector. Strong demand for freight transportation continued in the Atlanta, Cleveland, and Dallas Districts; St. Louis reported that firms in this industry announced plans to expand operations. Tourism increased in most Districts, including Chicago, New York, and Richmond. Contacts in the Atlanta District's tourism industry were generally upbeat in October and early November, and San Francisco noted that activity in the sector remained robust. Many Districts also noted solid growth in the financial, health care, software, and information technology sectors.

Real Estate and Construction

Residential real estate activity was reported to have moderated in many Districts. Home sales were reported as slowing in the Philadelphia, Richmond, and Cleveland Districts. The Minneapolis District noted that, for the Minneapolis-St. Paul metro area, existing homes were on the market longer, inventories were rising, and price appreciation had slowed. Although home sales remained fairly strong in New York City, the New York District reported that overall sales of homes in New Jersey had slowed and inventories were high. Both the Chicago and Atlanta Districts reported flat home sales, and excess inventories were reported in the Kansas City District, though home sales there were up slightly. Elsewhere, the St. Louis and Dallas Districts reported that home sales were strong in most metro areas, and San Francisco noted that home sales continued at rapid rates throughout the District, although cooling was evident in some markets, particularly Southern California. Single-family permits were up in many areas within the St. Louis District and residential construction was strong in the Dallas District. However, the pace of residential construction moderated in the Atlanta District, and homebuilders reported an expected slowing in the Philadelphia District; homebuilders also reported rising prices of inputs in the Philadelphia, Cleveland, and Richmond Districts, as well as difficulties in obtaining some materials in the Kansas City District.

Commercial real estate markets strengthened in many Districts. Atlanta, San Francisco, Philadelphia, and Kansas City reported that demand for commercial real estate has continued to improve. Boston, however, reported that commercial real estate in the Boston area remains flat. Office vacancy rates in most areas of the St. Louis and San Francisco Districts fell and demand for office space picked up in the Philadelphia, Dallas, and Kansas City Districts. Commercial agents expect continued improvement in the office market for the Kansas City District. The New York District reported that lower and midtown Manhattan's office markets continued to strengthen, while most suburban markets slackened moderately. Industrial vacancy rates fell in much of the St. Louis District, and contacts reported that demand for industrial space was on the rise in the Philadelphia and Dallas Districts. Commercial construction has improved in the Chicago District, while commercial construction was generally flat in the Richmond District. The St. Louis District reported that commercial construction remains active.

Banking and Finance

Overall lending activity varied throughout the Federal Reserve Districts. Lending activity slowed in Richmond and Chicago, and declined more notably in New York, while St. Louis and Dallas experienced little change. Loan demand in Atlanta remained strong and it edged up in Kansas City. Residential mortgage demand eased in the New York, Philadelphia, Chicago, and St. Louis Districts, and in some areas of the San Francisco District. Cleveland, Atlanta, Dallas, and San Francisco reported good credit quality. Atlanta and Dallas reported surges in personal bankruptcies ahead of the law change in October, although contacts noted that the increase was anticipated and should only be temporary.

Agriculture

Several Districts reported ideal weather for fieldwork and harvesting crops. Reports on crop yields and production were mostly positive throughout the Districts. In particular, Chicago expected larger corn and soybean harvests this year than any prior year except 2004. Minneapolis reported record yields in Minnesota for corn and soybeans and that total corn and soybean production in the District was larger than in 2004. Kansas City reported large harvests, San Francisco reported generally good conditions, Richmond noted good yields for soybeans, and Dallas reported that cotton yields were better than expected. Atlanta reported that Hurricane Wilma had caused an estimated $1.5 billion loss to Florida crop production, and San Francisco noted that potato yields were low. Many Districts reported lower farm incomes or profit margins this year--some attributed the declines to higher energy costs and lower product prices--but Kansas City reported strong incomes for livestock and crop producers. Chicago reported shortages of rail, barge, and trucking capacity, while Richmond reported that limited grain elevator capacity had caused delays in harvest in some areas.

Natural Resource Industries

Districts reporting on the energy sector generally saw growth since their previous report. Atlanta reported that production in the Gulf of Mexico had improved since September; however, nearly 40 percent of natural gas and half of oil production still remained off line. Most of the petroleum refining capacity in Louisiana and Mississippi was back on-line, but natural gas processing remains a concern as repair of processing facilities is taking longer than expected. Dallas reported that capacity is aggressively being added in some lines of the oil service industry, and that approximately 200 rigs are currently under construction. In the Kansas City District, the number of active oil and gas drilling rigs increased and was well above 2004 levels, although most contacts reported that drilling was being constrained by shortages in rigs, equipment, and workers. Minneapolis reported that the District's level of oil and gas production has remained steady since early August and that, except for a mine in western Montana, most mines were operating near to their full capacity.

Labor Markets

Several Districts noted increased hiring in a variety of industries. Dallas and New York reported increased hiring for professional and some types of skilled workers. Chicago, Boston, and New York reported increased demand for office workers. Dallas reported new hiring and concerns about shortages of skilled workers in the energy industry. St. Louis reported plans of increased hiring in the freight transportation industry. New York and Kansas City reported increased hiring in the manufacturing sector, whereas Cleveland and Boston reported manufacturing hiring as modest or unchanged. Cleveland reported modest hiring in the retail sector, and Richmond indicated that retail hiring continued to contract. Chicago reported employment increases in a wide range of sectors, with the exception of the auto industry, where several small suppliers reported reduced employment and two automakers announced plans for plant shutdowns and job cuts. Several Districts reported signs of tightening in labor markets and some difficulty in finding workers for certain occupations. Dallas and Cleveland reported that trucking firms were having difficulty attracting and retaining drivers. San Francisco reported tight labor market conditions for workers with specialized skills in the financial, construction, and health-care services sectors. Atlanta reported labor shortages in storm-damaged areas, especially in the construction industry.

Wages

District reports indicated modest overall upward pressures on wages. Contacts in the Minneapolis, Kansas City, and San Francisco Districts reported moderate increases in wage pressures. The Boston, Richmond, Atlanta, and San Francisco Districts indicated more substantial upward pressure on wages in one or more particular industries. The Dallas District provided the only indication of lower wage pressures--for the airline industry.

Prices

Consumer prices remained stable or experienced generally modest increases, but most Districts reported increasing input prices, particularly of energy-related products, construction and raw materials, and transportation. Fuel surcharges have become common in many Districts. In response to higher input prices, some businesses in the New York, Philadelphia, and Richmond Districts were able to pass along a portion of increased costs to consumers. Retail prices in the Boston District remained stable but had risen modestly in the Cleveland, Richmond, Chicago, and Kansas City Districts. Competitive pressures in the Atlanta and Dallas Districts have limited the ability to increase selling prices. Some manufacturers in the Dallas and Minneapolis Districts, however, plan to raise prices in 2006.

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First District--Boston

Economic activity continues to expand from year-earlier levels in the First District, but growth rates vary across sectors. Retailers say their sales results are mixed, with consumer purchases showing month-to-month ups and downs during the third quarter and early fourth quarter. Most manufacturers report year-over-year revenue increases; they express concern with intensifying energy-related cost pressures and uncertainty about their ability to increase prices. Firms in the staffing industry and software and information technology services sector also point to higher revenues; both expect revenues to continue rising through the end of the year and into 2006. Commercial real estate markets in Greater Boston remain flat.

Retail

First District retailers cite mixed sales results in the fall months. Same-store sales in the third and early fourth quarters of 2005 range from low double-digit decreases to up 7 percent year-over-year, although sales results for individual months varied. Products that sold particularly well include sporting goods, televisions, and some imported furniture sets; by contrast, casual apparel sales were disappointing. A contact in the drugstore industry says that business "feels good right now," and notes that foot traffic is up more than normal, possibly because consumers are less willing to travel to more distant competitors' stores while gas prices remain elevated. Another respondent reports that furniture sales have been flat, with most growth coming from new stores. A casual dining restaurant chain reports an unprecedented slowdown following Hurricane Katrina, with business only recently beginning to improve. Another such chain notes sales below expectations as consumers remain challenged by high energy prices.

Inventory levels are generally satisfactory, with several contacts reporting intentionally raising levels for the upcoming holidays. The majority of retail contacts note price pressures for petroleum-based products, but report that they are generally holding their selling prices stable. For the most part, employment is steady, with increases coming from new store openings.

Contacted retailers expect to finish the year on a positive note, but many remain cautious in their outlook. The effect of gas prices, expected high home heating costs, and the national mood on consumer confidence and spending are primary concerns for most.

Manufacturing and Related Services

Most First District manufacturers and related services providers report that third and fourth quarter sales and orders remain higher than a year ago. The percentage increases are typically in the mid-single-digit to low-double-digit range. Trends for energy and healthcare products and services have been particularly strong. Sales of equipment used in the semiconductor industry are running below year-ago levels but appear to be firming from their levels in early 2005. The furniture industry is said to be in a slump owing to declining consumer confidence and foreign competition.

Most respondents express strong concerns about rising costs of energy and energy-affected materials. For example, one contact reports "raw materials have really ratcheted up in the last three months," while another indicates that "raw materials costs are killing us." Almost all of the affected companies are trying to increase prices currently or have plans to do so in 2006. Some mention that they can no longer offset cost pressures by increasing productivity. By contrast with the norm, several equipment manufacturers remain relatively immune to cost pressures and report that their selling prices are largely holding steady.

Most manufacturers are keeping their domestic headcounts unchanged or are paring back slightly. They do not expect to face pressure for higher wage and salary increases in 2006, but many describe management of health insurance costs as a continuing challenge. Capital spending is said to be largely holding steady at subdued levels, except for additions to overseas capacity.

Manufacturers make frequent mention of downside risks in 2006. Many express concern that high energy prices or rising interest rates will damp consumer spending or squeeze profits. Some point specifically to housing or automotive markets as potential sources of weakness for their business. To the extent companies feel upbeat about the outlook, their optimism relates mostly to their own products or sales strategies.

Temporary Employment

All responding First District staffing firms enjoyed improving business conditions and revenue growth in Q3. However, the reported pace varied greatly among firms, with year-over-year revenue growth for Q3 ranging from low single digits to 50 percent. One firm has merely been "staying in the black," while another is "outperforming industry growth" by an estimated 15 percentage points.

While demand conditions vary, one contact described customer companies' hiring as generally "restrained and cautious." Two contacts note changing business attitudes towards the staffing industry; in particular, increasing numbers of companies are hiring multiple temps for formerly permanent jobs, and converting some to permanent positions after a trial period. Industries with strong demand for temp labor in Q3 and early Q4 include the financial sector, biopharmaceuticals, universities, federal and state governments, light industrial, and office and clerical. Contacts report falling demand from hospitals and the automotive industry. Meanwhile, although the pool of available workers is steady or increasing slightly for responding firms, several report shortages of highly skilled people.

Contacts are positive in their outlook, expressing relief that the New England staffing industry is starting to catch up with the rest of the country. All staffing respondents expect either steady or accelerated growth for their companies in Q4 and into 2006.

Software and Information Technology Services

Several contacts in the First District selling software and information technology services report that software development is showing solid growth, with profit rates in the low double digits from a year ago. However, one firm notes slower demand for its network engineering services as larger corporate clients move work in-house. Rather than pulling back across the board in this market, the firm is focusing its hiring on individuals who can handle specialized projects that are more likely to be contracted out.

Headcounts are flat over last year, although firms looking to hire are finding that, especially in the greater Boston area, the labor market is tightening. Technology wages are on the rise, with respondents reporting annual increases between 3 percent and 10 percent. Capital and technology spending year-to-date is reported at planned levels, with some contacts planning to increase spending early next year. Responding software and IT services companies expect their revenue growth rates to rise in 2006.

Commercial Real Estate

Although the New England region does have pockets of active growth, commercial real estate in the Boston area remains flat. The downtown Boston vacancy rate is estimated by contacts to be about 15 percent, with higher rates in the suburbs; both are steady from last quarter. One contact estimates that it would take five years at historical absorption rates (3 to 4 million square feet per year) to achieve a "balanced" office market in Greater Boston, which he defines as 10 percent vacancy. Rents in downtown and suburban Boston also remain steady. Looking forward, vacancy and rental rates are expected to remain close to their current levels. Contacts note that this flat outlook reflects reduced landlord expectations; as a result, retention efforts are increasing.

Despite the lackluster rental market in Boston, property values there and across New England continue to increase, fueled by an abundance of low cost capital. However, contacts note that currently rising costs of capital and low property yields could lead commercial real estate prices to correct downwards. Another factor buoying property values is rising construction costs. One contact estimated that building replacement costs increased by 10 percent to 15 percent over the past year, making existing buildings relatively more attractive. Nonetheless, increased prices of materials and petroleum have not yet stopped ongoing construction projects.

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Second District--New York

Economic activity in the Second District has continued to expand at a steady pace since the last report, but with a fair degree of variation across sectors. Price pressures persist, particularly in manufacturing, but consumer prices remain generally stable. Manufacturers report some acceleration in activity in early November. Hiring activity has shown signs of picking up, for both factory and office workers. Conditions in the financial sector are reported to have strengthened, and bonuses are expected to be up substantially this year. Retailers continue to report lackluster sales, but tourism remains strong. Both commercial and residential real estate have shown signs of cooling, though New York City has shown more resilience than the rest of the region. Finally, bankers report widespread declines in demand for consumer loans and residential mortgages and note a moderate increase in consumer delinquencies.

Consumer Spending

Retailers report that general merchandise sales were close to plan in October but somewhat below plan in early November. Overall, same-store sales are reported to be up only modestly from comparable 2004 levels. One contact attributed the sluggish sales to high energy prices severely affecting consumers' liquidity. Despite the lackluster sales, retail inventories were said to be at satisfactory levels going into the holiday season. Selling prices for comparable merchandise are reported to be down slightly from a year ago, though changes in the mix--toward more upscale product lines--have boosted revenues. Consumer confidence in the region recovered somewhat in October following a drop in September; the Conference Board's survey of Middle Atlantic residents showed a noticeable bounce in confidence, while Siena College's survey of New York State residents showed only a slight up-tick.

Tourism has remained strong since the last report. Manhattan hotels report that business remained brisk in October, though perhaps a bit less robust than during the third quarter. Occupancy rates remained exceptionally high--near 90 percent--in October, though they slipped below year-earlier levels. Room rates hit record highs, 17 percent above a year earlier. Broadway theaters report further strengthening in business in late October and early November, with attendance up more than 15 percent from a year earlier and revenues up more than 20 percent. Also, passenger traffic at Buffalo Niagara International Airport is reported to have surged to record levels thus far in 2005, up an estimated 13 percent from 2004 levels.

Construction and Real Estate

The region's housing market has continued to soften in recent weeks, though New York City's sales and rental markets remain fairly strong. New Jersey homebuilders report that, while prices still remain well ahead of a year ago, concessions are being offered for the first time in years. Overall sales activity for new and existing homes in New Jersey has slowed, and at the current sales pace, the inventory of unsold homes has risen from roughly three months to five months over the past year. On the supply side, builders indicate a shortage of drywall and gypsum products, and a considerable increase in lumber prices. Manhattan's co-op and condo market generally remained strong in October and early November, though there were scattered signs of softening. One major real estate firm notes that, while the inventory of unsold apartments has risen, October sales transactions were up 5 percent from a year earlier, and average selling prices were still up almost 15 percent. Another contact indicates that the market for 2- and 3-bedroom apartments has slackened noticeably, whereas smaller, entry-level units have seen significant price appreciation and a shortage of inventory.

Commercial real estate markets across the New York City metropolitan area were mixed in October: Lower and Midtown Manhattan's office markets continued to strengthen, while most of the suburban markets slackened moderately. Office vacancy rates climbed in Westchester and southwestern Connecticut, edged up in Long Island, and were little changed in northern New Jersey. Asking rents were flat across most of the region, but were up 3 to 4 percent in Midtown Manhattan and Long Island. Non-residential construction contracts in western New York State are reported to be running below comparable 2004 levels, but residential development has been brisk--construction has recently begun on a number of apartment projects in the Buffalo area, as well as a large hotel and casino 50 miles south of the city.

Other Business Activity

Conditions in the security industry have strengthened further in October and November, led by a notable and broad-based increase in transactions. Firms are reported to be expanding staff, and the upcoming bonus season is expected to be strong, with 12 to 15 percent gains over last year's levels. More generally, the labor market has shown further signs of strengthening. A major New York City employment agency reports that the market for office workers has continued to improve; there has been less of a seasonal slowdown than usual in November, and there is an increasing shortage of qualified workers. While the financial sector continues to account for a large share of their business, the strength in recent months has been broad-based. Manufacturing contacts in the region also report some pickup in hiring activity in November.

More broadly, manufacturing activity has shown signs of strengthening. While purchasing managers in the New York City and Buffalo areas report that activity was relatively flat in October, our latest survey of New York State manufacturers, conducted in early November, points to a broad improvement in business conditions and increased optimism about the six-month outlook. Manufacturers also note further increases in input price pressures and an increasing ability to hike selling prices.

Financial Developments

Small to medium-sized Second District banks report widespread decreases in demand for loans across all categories. In particular, 42 percent of bankers reported lower demand for consumer loans and none reported higher demand--the most negative readings on this question in more than a decade. Similarly, 55 percent of bankers report lower demand for residential mortgages, led by refinancings.

Credit standards for all loan types remained unchanged except commercial mortgages, for which bankers reported tighter standards on balance. Higher loan rates were reported for all loan categories since the last report. Finally, delinquency rates remained unchanged across all loan categories except consumer loans, where bankers report some net increase in delinquencies.

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Third District--Philadelphia

Economic activity in the Third District grew slowly in November. Manufacturers reported increases in shipments and new orders during the month. Retail sales of general merchandise were on the rise, but year-to-year gains were slight for most stores and some had declines. Auto sales rose in November, following a drop in October. Bank loan volume was roughly steady. Commercial real estate markets have tightened, but residential real estate activity has eased. Business contacts in all industries noted continued rising costs and growing pressure on profit margins.

Third District business contacts generally expect business activity in the region to continue to expand, although slowly in some sectors. Manufacturers expect business to pick up from its November pace, and they are scheduling increased capital outlays. Retailers anticipate modest year-over-year gains for the holiday shopping period, but they expect sales growth to be difficult to sustain next year. Auto dealers say the outlook is uncertain. Contacts in commercial real estate generally expect further declines in vacancy rates and some firming in rents. Residential real estate agents and home builders anticipate a slight slowing in sales and a moderation in the rate of home price appreciation next year.

Manufacturing

Manufacturers in the Third District reported moderate growth in demand for their products in November. About one-third of the companies contacted said that new orders received in November rose from the previous month; about one-fifth said their new orders declined. On balance, shipments increased among area manufacturers, but order backlogs fell. Among the District's major manufacturing sectors, business improved in November for producers of food products, metal products, and electrical equipment, but weakened for makers of apparel, paper products, and industrial materials and equipment.

Overall, manufacturers expect growth in business activity to pick up in the months ahead. Half of the firms contacted in November expect their shipments and orders to increase during the next six months; less than one-fifth expect decreases. Capital spending plans among District manufacturers call for stepped-up expenditures, on balance, and the number of firms scheduling increased outlays has increased somewhat since the summer.

Area manufacturers noted continuing increases in input costs and output prices in November. Over half of the firms surveyed reported higher costs for the goods they purchase, and one-third raised prices for the products they make. Almost none indicated declines in input or output prices. Looking toward next year, about three-fourths of the manufacturers polled in November expect further increases in costs for energy, raw materials, and intermediate goods, and about nine-tenths expect increases in health benefit costs and wages. Energy costs and health benefits are expected to rise more rapidly than other expense categories.

Retail

Most of the retailers contacted for this report indicated that sales in October and early November were up only marginally from the same period last year and some stores posted lower sales. Sales of luxury goods and consumer electronics continued to expand more strongly than other lines of merchandise, and discount stores had better results than mid-price department and specialty stores. Most of the retailers surveyed also reported declines in store traffic month-to-month and compared with a year ago. In general, store executives said they were maintaining cautious inventory levels, although some stores have implemented early price cuts to spur holiday shopping. Third District merchants expect modest year-over-year gains for the holiday shopping period, and looking ahead, several said they expect 2006 to be a challenging year for sales growth. Store executives also noted that profit margins are coming under increasing pressure as a result of the rising cost of utilities, especially heat and electricity, and higher charges for construction and repair.

Auto dealers in the region reported a gradual improvement in sales of both automobiles and sport utility vehicles in November, following a drop in October. Inventories were not considered excessive, but most dealers believe that sales for vehicles this winter is uncertain and will depend crucially on manufacturers' pricing, the price of gasoline, and the level of consumer confidence.

Finance

The volume of loans outstanding at Third District banks was roughly steady in November compared with October. Banks gave mixed reports on commercial and industrial lending; overall, however, business lending appeared to be growing slightly in the region. Consumer loan volume at banks in the District was nearly flat during the month. Most banks and other mortgage lenders in the region indicated that residential mortgage activity has eased. All the financial companies contacted for this report indicated that competition for loans, as well as deposits, continues to be strong. Several banks said they have raised deposit interest rates to prevent outflows. Bankers in the District expect slow growth in lending growth during the winter. They believe that business and consumer confidence has become more fragile recently, prompting more cautious spending for both business expansion and personal expenditures. Bankers and mortgage lenders also expect residential mortgage activity to ease further, although most expect the level of activity to remain high by historical standards.

Real Estate and Construction

Commercial real estate firms reported that vacancy rates in the region's office markets have declined in the past few months. Rental rates have edged up, and in some local markets landlords have reduced concessions. New buildings recently completed or under construction in Philadelphia's central business district are being leased quickly, and the net increase in the amount of available office space in the city has been limited by the conversion of older office buildings to residential use. For the region as a whole, demand for space has been rising somewhat faster than supply. Commercial real estate contacts expect a further tightening of the region's office markets during the winter. As office markets move into balance, commercial real estate agents believe a pickup in construction will become more likely, and some note that a few speculative buildings are already under construction in suburban markets. Demand for industrial space has also been on the rise, especially for warehouse and distribution space, which constitute a large part of the region's industrial facilities.

Residential real estate agents and homebuilders generally reported a slowing in sales in October and November compared with the pace set earlier this year. Some real estate contacts noted that the number of existing homes for sale has risen recently and the number of offers per house has declined. Nonetheless, real estate agents said many sellers do not seem inclined to accept less than their asking prices. Homebuilders and real estate agents expect sales next year to be below this year's level by a few percentage points, and they expect price appreciation to moderate significantly.

Builders reported rising prices for a variety of construction materials and some difficulty in obtaining sufficient supplies of certain items, such as plastic pipe and roofing materials. Some builders also noted that wages and subcontractors' charges have risen.

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Fourth District--Cleveland

Fourth District business conditions continued to show gradual improvement across a broad array of industries in the six weeks through the middle of November. Production activity among durable goods producers saw gradual gains through the last several weeks, while nondurable goods producers reported production remained steady. Most District retailers reported a generally positive economic environment since the beginning of October, despite concerns about consumer confidence. While sales at automobile dealerships declined sharply in October, automobile assembly plants in the District actually saw activity increase slightly. In nonresidential construction, contractors continued to report increases in activity. However, District homebuilders saw sales continue to trend down. Finally, demand for trucking and shipping services remained robust throughout the District.

Firms continued to report increases in their input costs through the middle of November, especially for petroleum-based products, but these increases were generally more modest than in the recent past. Aside from petroleum products, contacts also cited increases in the prices for steel, drywall, lumber, concrete, and natural gas. Companies continued to add to their payrolls sparingly, although some staffing services contacts reported that their placements improved in October and early November, at a time when there is typically a seasonal slowing in demand.

Manufacturing

Through the six weeks ending in mid-November, the District's durable goods producers generally reported moderate increases in production, and anticipated that conditions would continue to improve in the near term, based on increases in their orders for future delivery. Relative to a year ago, contacts also typically indicated that their production levels had risen. Within specific sectors, steel producers reported that shipments were steady or rising in recent weeks, with steady demand from an array of industries, and increases in demand from the appliance and automobile industries. Steel industry sources expect these favorable conditions to continue, possibly attenuating the seasonal slowing in production that typically occurs at year-end. Consistent with increasing steel shipments to the auto sector, District automakers saw a slight increase in production in the six weeks through the middle of November. Some contacts speculated that automakers may be trying to increase their inventories ahead of a potential strike at a large auto parts supplier. Nondurable goods producers generally reported that their production levels were flat for the last several weeks, as well as relative to this time a year ago. Among nondurable goods producers, the pace of new orders also remained relatively unchanged for most firms.

Most manufacturers saw slight increases in their input costs from October through the middle of November. Costs also continued to be notably higher for most firms relative to this time last year. In general, increases in costs were tied to petroleum and petroleum-based products, like plastics and resins, though contacts noted that natural gas and steel prices had also risen. Hiring continued to be modest among manufacturers, while durable goods producers reported plans to increase their capital spending, as a response to stronger demand.

Retail

Through the six-week period ending in mid-November, the District's discounters reported steady sales that were above year-ago levels, which met or exceeded expectations. Specialty stores also generally reported that their sales met or exceeded expectations. Among discount and specialty-store contacts, business conditions are anticipated to remain favorable throughout the holiday selling season, though some discounters are concerned that high home heating bills will weaken sales in early 2006. However, sales at the District's department stores continued to trend down, as contacts again reported year-over-year sales declines. District automobile sales also fell further in October, after falling sharply in September. In mid-November, the "Big Three" again announced new incentive plans.

Outside of autos, many contacts reported that their product prices had, on average, risen in recent months, while few contacts reported any major changes to their input costs, aside from some increases in transportation costs. Hiring has been modest for most retailers, and some noted that they will hire fewer workers this holiday selling season than in the past.

Construction

In the six weeks through the middle of November, District home sales weakened relative to the end of the third quarter and a year ago. Contacts reported that customer traffic was light, while builders' backlogs were generally down from their levels of this time last year. Higher-priced homes sold somewhat better than their lower-priced counterparts. Increases in input costs were widely reported by builders. Among the materials most often mentioned were concrete and various petroleum-based products, such as polyvinylchloride pipe and vinyl siding. Hiring among homebuilders continued to be largely to replace workers, with some organizations planning to reduce staff sizes.

Most nonresidential builders noted that their sales had risen in recent months, and were also higher than at this time last year. Moreover, builders' backlogs were regarded as relatively strong. Increases in materials costs were also widely reported among nonresidential builders, though these increases were much more modest than in the previous report. Contacts reported that their attempts to recover these increases in costs met with differing degrees of success, though several contacts mentioned that their clients seemed to expect higher prices now.

Trucking and Shipping

Demand for trucking and shipping services in the District remained robust through the middle of November. As previously reported, attracting and retaining drivers continued to be a challenge in the industry. Trucking companies continued to offset elevated fuel prices through the use of surcharges. Nevertheless, the increases in fuel costs still adversely affected profits through truck operations that could not be billed to clients. Accordingly, several companies are reportedly considering raising their base rates beginning in 2006.

Banking

Among larger banking institutions in the District, commercial borrowing increased in the six weeks ending in mid-November. The demand for loans related to health care and commercial real estate was especially strong gains. Consumer loan demand was generally flat for banks of all sizes throughout the District, though some respondents again reported an increase in the demand for home-equity loans. Core deposits were down slightly at most banks in the District, while credit quality reportedly remained strong.

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Fifth District--Richmond

The Fifth District economy continued to expand at a solid pace in October and the first three weeks of November, despite evidence of slowing automobile and home sales. District services businesses generally reported strong revenue gains and steady advances in employment. Growth in the manufacturing sector remained on track as well; shipments and new orders expanded briskly. District retailers, however, reported only moderate sales gains during the period as a slump in automobile and light truck sales weighed on the sector. In addition, real estate agents said that while the residential market remained strong, home sales slowed in a number of areas and sales price gains moderated. In the financial sector, growth in lending activity was constrained by a slowdown in residential mortgage lending. Business contacts generally said that prices for their products and services rose at a somewhat quicker pace since our last report, as higher energy prices continued to work through the economy. In agriculture, harvesting was underway and proceeding a little faster than normal in many areas thanks to generally warm and dry weather. Yields were generally good.

Services

Service-producing businesses continued to report relatively strong revenue growth in the weeks since our last report. Investment services firms in Richmond, Va., and Baltimore, Md., said that revenues continued to grow at a solid pace, while revenue growth moved higher at professional, scientific, and technical businesses. In addition, contacts at hospitals and residential care facilities said that customer demand grew more rapidly during recent weeks, and they expected the momentum to continue in the weeks ahead. Hiring and wage growth at services firms strengthened in recent weeks. Prices in the sector advanced at a somewhat stronger pace in October, but growth eased in November.

Retail

Retail sales growth tapered off since our last report as big-ticket sales slipped in November. Automobile and light truck dealers throughout the District reported that sales weakened substantially after "employee pricing" and similar incentive programs ended. The owner of a sporting goods store in central West Virginia reported that holiday sales were starting slowly, and the manager of a large department store in central North Carolina told us warm weather damped sales of winter apparel. In contrast, grocery and home improvement stores reported rising sales. Retail prices rose more quickly in October--in part because of higher gasoline prices--but the pace slowed somewhat in November. Hiring in the sector continued to contract.

Manufacturing

Growth in the District's manufacturing sector picked up in October and the first half of November. Factory shipments and new orders expanded at a solid pace in both months. Food, paper, and electronics manufacturers reported particularly strong activity; an electronics producer in Baltimore, Md., said, "Business took off in September and continues at a brisk pace." A plastics producer was also upbeat, noting, "We are still very busy; new orders and backlogs are up," and a chemical manufacturer in Charlotte, N.C., told us, "Customer demand remains robust." In contrast, a furniture manufacturer in North Carolina indicated that business was "softer" than a year ago, and said that attendance at the Furniture Market in High Point, N.C., was down 10 percent this fall. Prices for both raw materials and final goods sold rose at a quicker pace in October and November.

Finance

District bankers reported that growth in lending activity edged lower in the weeks since our last report. Residential mortgage lenders said that a rise in mortgage interest rates trimmed the pace of lending in recent weeks. Commercial lending was characterized as generally flat. Several bankers reported that business clients were a little more reluctant to borrow because of increasing concerns about future sales prospects. A banker in Charleston, W.V., for example, reported that his clients were hesitant to borrow to finance capital spending, despite modest growth in demand for their products.

Real Estate

Real estate agents reported that while residential markets remained generally strong, the pace of housing activity continued to slow in some areas. An agent in Washington, D.C., told us that sales at his agency had fallen 7 percent below year-ago levels, and that traffic at open houses was "awfully slow." A contact in Richmond, Va., reported that higher-priced homes were staying on the market longer, and that sellers had become more willing to pay closing costs. In Odenton, Md., an agent said that multiple offers on properties for sale were becoming less common. Homebuilders reported that construction materials prices, particularly those of lumber and drywall, continued to escalate rapidly. In contrast, home prices softened in a number of areas. A Fairfax, Va., agent told us that she had seen more price reductions in the past month than in the past 3 years, while an agent in Fredericksburg, Va., said that markets were undergoing "a healthy adjustment" toward lower prices.

Commercial real estate agents reported that the pace of leasing activity in the District remained generally strong in October and November. Office and retail markets continued to be more active than industrial and warehouse markets. Commercial construction activity was generally flat, as substantially higher construction costs slowed demand for new commercial space in a number of areas. An agent in the District of Columbia said that construction costs were rising at a rate of about 1.5 percent per month, and the pace of new construction was beginning to slow as a result. Vacancy rates in most areas of the Fifth District remained low, while rents firmed. In Columbia, S.C., an agent said that lower vacancy rates were resulting in fewer concessions from property owners in contract negotiations.

Tourism

Tourist activity strengthened since our last report. Contacts on the Outer Banks of North Carolina and in Myrtle Beach, S.C., said bookings for Veterans' Day weekend were somewhat stronger than a year ago, which they attributed primarily to fair weather and earlier-than-normal holiday promotions. Reports from mountain resorts were also upbeat. A manager at a resort in western Virginia noted record-breaking time-share sales--up 10 percent over last year--and a contact in West Virginia indicated that group bookings had increased markedly.

Temporary Employment

Temporary employment agencies in the District reported a pickup in demand for workers since our last report. An agent in Northern Virginia said that business openings and expansions had boosted demand for her firm's services. A contact in Hagerstown, Md., told us that demand for temporary workers was very strong and that qualified workers remained in short supply. Skilled manufacturing, administrative, and customer service employees were among the most highly sought temporary workers across the District.

Agriculture

Generally warm and dry weather contributed to ideal harvest conditions in most areas of the Fifth District. In Virginia, good progress was made in harvesting soybeans and corn, although limited grain elevator capacity slowed activity in some counties. In South Carolina, the soybean harvest was reaching the halfway mark and yields were generally good. Harvests of cotton, peanuts, sweet potatoes, sorghum, and soybeans were nearing completion in North Carolina, and Christmas tree producers in that state reported that they were preparing for the holiday season.

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Sixth District--Atlanta

Reports from Sixth District business contacts suggested that the pace of economic activity improved in October and early November. Demolition, cleanup and repair work along the Gulf Coast was continuing, although full-scale rebuilding is not expected to be underway until early next year. Retailers' reports were positive and their outlook for holiday sales improved relative to immediately after the Gulf Coast hurricanes. Housing activity remained at high levels, although reports suggest that demand eased in a few areas. District manufacturers noted improved conditions as several facilities came back on line and post-hurricane demand boosted production in several industries. The demand for freight services remained strong in the region. Contacts in the tourism industry were upbeat despite disruptions in South Florida caused by Hurricane Wilma. Labor shortages were noted in storm-damaged areas, especially in the construction industry. Most contacts continued to note higher energy and input costs, whereas the ability to pass these higher costs on to customers was mixed.

Consumer Spending

Comments by retailers were generally more positive than in our prior report, although some noted that warm weather continued to be a drag on apparel sales. Most contacts indicated that sales during October and early November met or exceeded year-ago levels and inventories were adequate. Several retailers reported that their sales were boosted as households began the process of replacing hurricane damaged or destroyed items. The holiday outlook among District retailers also improved. Most retail contacts anticipate that sales will be modestly higher than last year.

District auto sales in October were weaker than last year. Most contacts attributed this to disruptions caused by Hurricane Wilma and the absence of new incentive programs. Contacts also noted that demand continued to shift away from full-size SUVs and trucks to smaller and more fuel efficient models. Automobile dealers in areas affected by Hurricanes Katrina and Rita reported a strong upsurge in replacement sales and strong demand from commercial customers.

Real Estate

Single-family home sales were flat to up slightly compared with last year, according to real estate contacts. In South Florida, some softening in demand was noted, and the surge in home sales activity in the wake of hurricanes Katrina and Rita has abated. Overall, homebuilders' reports suggest that the pace of residential construction moderated somewhat in October. Commercial real estate markets across the region continued to improve. Recovery efforts along the Gulf Coast remained focused on demolition, cleanup and debris removal. Large-scale reconstruction is not expected to get underway until early next year.

Manufacturing and Transportation

Reports from the factory sector were mostly positive. Most contacts reported that high energy and raw material costs had not caused production cutbacks, and some crude and intermediate goods suppliers said that they have been able to pass price increases along to their customers. Construction-related manufacturers noted strong demand. Several manufacturers in hurricane-affected areas reported that production had resumed, including a New Orleans's coffee processing facility and two large Louisiana seafood processing plants. Northrop Grumman shipyards in New Orleans, Pascagoula, and Gulfport resumed work on a number of projects but noted that their completion will be delayed. Most District transporters reported continued strong freight demand. Repairs to hurricane-damaged roads, bridges, rail lines and port facilities continued.

Tourism and Business Travel

Reports from the tourism and hospitality industry were mostly upbeat in October and early November. Declining gasoline prices were viewed as a favorable factor for the winter season in Florida. Restaurant revenues, hotel occupancies, and room rates in South Florida were at high levels before Hurricane Wilma hit. Reportedly, resorts and hotels were able to resume operations reasonably quickly in the wake of the storm, improving the outlook for the remainder of the winter season. Some casinos along the Mississippi Gulf Coast are slated to reopen in the next few months, and a scaled down version of New Orleans's annual Holiday celebration is expected to go on this year. Atlanta's World Congress Center is expected to increase staff levels to accommodate conventions that have transferred from New Orleans.

Banking and Finance

Banking conditions in the District remained generally favorable. Deposit growth was strong in most parts of the District, particularly in the hurricane-affected areas as insurance claims were settled. Loan demand was also reported to be quite strong, driven mostly by real estate activity. Credit quality was described as good. While there was a surge in bankruptcy filings just before the more stringent bankruptcy law came into effect on October 17, most of the increase was anticipated. Refinancing activity slowed and commercial and industrial lending remained subdued.

Employment and Prices

Contacts reported high demand for both skilled and unskilled labor in storm-damaged areas. Skilled construction workers were in high demand where the rebuilding of commercial and residential buildings had begun, and large numbers of unskilled workers were required to help with demolition and cleanup work. Wages for construction workers have reportedly increased substantially because of the high demand.

Reports on price increases and price pass through were mixed. Transportation firms continued to add a fuel surcharge to their normal fare, and some construction companies are reported

including clauses in their contracts to cover future material and fuel price increases. Higher input and output prices were also noted in the petrochemical sector. However, other contacts reported difficulty passing on cost increases because of competitive pressures. Some have lowered expectations for future earnings because of higher costs for commodities, packaging, transportation, and energy that cannot be fully passed on to consumers.

Natural Resources & Agriculture
Energy production in the Gulf of Mexico has improved since September, but nearly 40 percent of normal natural gas and 50 percent of normal oil production remained off-line through mid-November. Contacts reported damage left by Katrina and Rita will take at least a year to fully repair, especially the offshore pipeline system. Repairs were slow to get underway because of worker shortages in the aftermath of Katrina and Rita.

Most of Louisiana's and Mississippi's petroleum refining capacity is back on-line, but contacts reported that natural gas processing remains a concern as repair of processing facilities is taking longer than expected, with a number of locations still off-line.

Hurricane Wilma caused an estimated $1.5 billion loss in Florida crop production, with nurseries, sugarcane, and citrus reporting the largest losses. Elsewhere, dry weather contributed to healthy fieldwork rates.

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Seventh District--Chicago

Economic activity in the Seventh District continued to expand at a moderate pace during October and early November. In general, spending by both consumers and businesses continued to increase at a modest pace. Hiring expanded further in most locations and industries. Residential construction and real estate activity was little changed or down from the previous reporting period, while growth in commercial activity slowed. The manufacturing sector expanded again, and growth firmed in some sectors. Mortgage demand was down, while commercial lending activity growth continued to slow. Cost and price pressures remained firm in October and early November. The corn and soybean harvests in the District were both expected to be the second largest ever. Crop storage was at a premium, due in part to continued transportation issues.

Consumer spending
Consumer spending continued to increase modestly in October and early November. A general merchandise retailer in Iowa said that sales were running above plan, noting that a recent cold spell helped boost sales of clothing and alternate heating sources, such as wood and corn pellet stoves. Retailers in Michigan reported an improved sales climate, and an industry analyst said that sales in Illinois were "on target." Retail inventories in the District were at or below desired levels. District auto dealers said that sales remained slow during the early weeks of November, and one worried that there would be little pick up in the near term. A restaurant chain said that sales in the Midwest continued to increase but at a slower pace than earlier in the year. Fall tourism activity in the District was up modestly from last year.

Business spending
Business spending and hiring continued to expand at a gradual pace. In general, District firms maintained their earlier plans to increase capital spending. Contacts reported little change in overall labor market conditions, with employment continuing to increase in many locales and in a wide range of sectors. One exception was in the auto industry: several small suppliers reduced employment in recent weeks, and two automakers noted restructuring plans that include plant shutdowns and cuts in both salaried and hourly workers. Staffing services firms said that demand picked up steadily again in all District states except Michigan. One staffing firm reported that demand for office and clerical workers was growing faster in recent months, as businesses sought to add more contingent staff. Contacts noted a continued tightening in labor markets, with recruiting for some skilled trades becoming more difficult.

Construction/real estate
Construction and real estate activity was mixed by both location and market segment. Most respondents indicated that residential activity was unchanged from the previous reporting period, although there were some references to slowing and no reports of activity picking up. Many contacts expected residential activity to weaken in the next year, with one from the Chicago area saying, "The single-family home building craze seems like it is slowly coming to a close." Commercial construction and real estate activity continued to expand steadily, though some contacts felt the pace of growth in the District lagged the pace in the rest of the country. Industrial development in Indiana picked up in recent weeks. In the office market, activity in the Chicago suburbs continued to be brisk, and some developers were offering fewer concessions to close deals; but in the central business district, contacts were concerned about overbuilding. Construction contractors reported no outright materials shortages, though some had to expand their search for some products such as siding.

Manufacturing
Manufacturing activity continued to expand in October and early November, with some sectors reporting a strengthening in demand. Orders for construction equipment improved further, led by sales of large machinery. Toolmakers noted strong orders growth, with most contacts expecting the strength to persist into at least early next year. Conditions in the steel industry were said to be "very strong," with high demand from many industries. Steel inventories were below desired levels. Growth in cement shipments continued to be strong, helped in part by the boost in construction activity due to unseasonably warm weather. Orders for heavy trucks ebbed and flowed around very strong levels. Contacts in the agricultural equipment industry anticipated that demand would soften in the fourth quarter. Automakers reported that U.S. light vehicle sales in early November were below their expectations and basically unchanged from October. Still, they expected sales to pick up in response to a new round of incentives. Light vehicle production plans were left unchanged.

Banking/finance
Lending activity moderated further. Bankers reported declines in applications for both home-purchase and refinancing mortgages. Mortgage credit quality was in good shape and delinquencies remained low, though one banker said home equity loan delinquencies had ticked up again. Commercial lending continued to expand, though at a pace that was slower than earlier in the year. One banker said that businesses' use of their credit lines remained well below historical norms. Contacts noted that competitive pressures continued to lead to easier standards and terms and to narrower spreads for commercial loans. In addition, a Chicago-area banker said that excess capacity in mortgage lending continued to squeeze margins in that line of business. Demand for agricultural loans picked up during the fall months.

Prices/costs
Price and cost pressures remained firm in October and early November. Prices of most oil-based materials increased. Prices of wallboard, cement, steel, and many other construction materials also rose. New or additional fuel surcharges continued to be reported for a broad range of products and services, and one contractor noted, "We've had fuel surcharges tacked on to all kinds of invoices." Cost pressures were expected to persist into next year, and one commercial developer was budgeting for building expenses to increase much faster than they had in "a few years." Contacts said they were able to pass on at least part of the higher costs, though some were only able to do so after a time lag. Retail prices increased modestly. One Iowa retailer felt that customers were offering little resistance to energy-related price increases. Wage gains held relatively steady in most industries.

Agriculture
The 2005 corn and soybean harvests were expected to be larger than any prior harvest with the exception of last year's bumper crop. Corn and soybean cash prices seemed to stabilize in the District, as transportation of crops improved somewhat. Still, contacts indicated there continued to be a shortage of rail, barge, and trucking capacity. With crop storage facilities full, corn was being stored on the ground, including as much as 20 percent of the Iowa corn harvest. Net farm income was expected to be lower than last year, but no problems were anticipated outside of the areas that had been hit hard by the drought.

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Eighth District--St. Louis

Economic conditions in the Eighth District have been mixed since our previous survey. While the services sector continued to grow, reports in manufacturing did not present as clear a picture. Retail and auto sales declined in October and mid-November relative to a year ago. Residential and commercial real estate market conditions were mostly favorable. Lending activity at a sample of District banks was largely unchanged in the three-month period ending in October.

Consumer Spending
Contacts reported that, on average, retail sales for October through mid-November were down over year-earlier levels. About 48 percent of the retailers surveyed noted that sales levels met their expectations, 38 percent reported that sales were below what they had anticipated, and 14 percent reported that sales were above expectations. Winter seasonal items, electronics, and staple foods were all strong sellers, while heavy clothing, shoes, and home furnishings were moving more slowly. About 75 percent of the contacts noted that inventories were at desired levels, 21 percent reported that inventories were too high, and 4 percent reported that inventories were too low. Retailers appear generally optimistic about sales during the holiday season, as approximately 63 percent of contacts expect that sales will increase over their 2004 levels.

Car dealers reported that, on average, sales for October through mid-November were down over year-earlier levels. About 88 percent of the car dealers surveyed reported a decrease in sales. Many contacts attributed decreased sales to high fuel costs; a few contacts also cited the end of pricing discounts as a reason. About two thirds of the car dealers surveyed noted no change in used car sales relative to new car sales. About half of contacts reported an increase in low-end vehicle sales relative to high-end vehicle sales, while another half reported no change. About 38 percent of the car dealers surveyed reported that inventories were too high, 33 percent reported that their inventories were at desired levels, and 29 percent reported that inventories were too low. About 38 percent of the car dealers surveyed expect decreased sales over 2004 for the next two months, 25 percent expect increased sales, while another 29 percent are cautiously optimistic.

Manufacturing and Other Business Activity
Reports from contacts in the manufacturing sector in the period since our previous survey continued to be mixed. Several firms reported plans to open plants and expand operations, while slightly fewer contacts reported plans to close plants and lay off workers. Firms in the food, pharmaceutical, and fabricated metal product industries announced plans to open new facilities in the District. Firms in the auto, machinery, manufactured home, and plastics industries announced plans to expand facilities or increase production. In contrast, contacts in the motor vehicle parts, apparel, chemical, and household appliance industries reported plant closings and layoffs. Several of these firms cited slowing demand or plans to move production abroad. Many contacts expressed concern over the rising costs of raw materials.

The District's services sector continued to expand in most areas since our previous report. Firms in the water transportation, warehousing, telecommunications, finance, and business support services industries announced plans to open new facilities in the District. Firms in the freight transportation industry reported plans to expand facilities and hire additional workers. Despite overall positive growth, contacts in the waste management and health care industries reported plans to lay off workers.

Real Estate and Construction
Residential real estate markets continued to do well in most of the Eighth District. Compared with the same period in 2004, September year-to-date home sales were up in Louisville, Memphis, Little Rock, and in metropolitan St. Louis. Contacts in northeast Arkansas, however, reported that homes sales have slowed recently. Residential construction was mixed throughout the District. Compared with the same period last year, September year-to-date single-family permits were up in Little Rock, Memphis, St. Louis, and Pine Bluff, Arkansas; permit growth was flat in Louisville and down in Owensboro, Kentucky, Jackson, Tennessee, and Evansville, Indiana.

Commercial real estate market conditions throughout the Eighth District were mostly positive. The third-quarter industrial vacancy rate fell in St. Louis and Louisville, and it rose in Memphis. The third-quarter office vacancy rate fell in St. Louis and Memphis, and it rose in Louisville. Commercial construction is strong throughout the District. Contacts in northeast Mississippi reported that new commercial development is stepping up, and contacts in southwestern Illinois reported that both commercial and industrial development are strong. Contacts reported that construction of a major industrial project is underway in northern Mississippi, and contacts in northwest Tennessee reported that construction of a large industrial complex is slated to begin in mid-2006.

Banking and Finance
A survey of senior loan officers at a sample of District banks showed little change in overall lending activity in the three months ending in October. During this period, credit standards and demand for commercial and industrial loans remained basically unchanged for both large and small firms; credit standards for commercial real estate, residential mortgage, and consumer loans were also unchanged. In this period, demand for commercial real estate and consumer loans remained basically unchanged, while demand for residential mortgages was moderately weaker.

Agriculture and Natural Resources
Thanks to the dry weather observed since October, the District's fall harvest has progressed ahead of its normal pace. The corn, soybean, sorghum, and cotton harvests are at least 96 percent complete, and the rice harvest is finished. Despite its positive impact on harvesting, the dry weather has delayed some winter wheat planting in Mississippi, but farmers in all other District states have planted at least 90 percent of their intended crop.

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Ninth District--Minneapolis

The Ninth District economy showed signs of solid growth since the last report. Increases in activity were noted in consumer spending, manufacturing, agriculture, and commercial real estate. Meanwhile, construction, energy, and mining were stable at a high level. Tourism and residential real estate softened. Labor markets tightened slightly since the last report. Wage increases were moderate. Significant price increases were noted for construction materials, plastics, and energy, while gasoline prices decreased.

Consumer Spending and Tourism
Overall consumer spending increased since the last report. A major Minneapolis-based retailer reported same-store sales up almost 6 percent in October compared with a year ago; however, sales in early November were below expectations. A mall manager in North Dakota said that recent sales were up more than 5 percent over last year. In addition, higher gas prices seemed to have little impact on traffic at the mall. Traffic counts and sales in October were up over a year ago at a Montana mall; store owners were optimistic for the holiday season. However, a St. Paul area mall manager noted that recent traffic and sales were a little slower than a year ago. A member of the Minneapolis Fed's Advisory Council on Small Business and Labor noted that some retailers observed that people were shopping closer to home due to higher gas prices. A representative of an auto dealers association in Minnesota said that except for some dealers who sell import cars, traffic and sales were very slow at many dealerships.

Tourism activity softened. This year's Minnesota deer-hunting permits were down an estimated 6 percent from last season. A tourism official in Montana noted that September tourism activity was a little softer than a year ago, but ski areas were looking forward to opening on time or even early. A bank director reported that two ski hills were expanding in southwestern Montana.

Construction and Real Estate
Construction activity flattened since our last report. October building permits were about level from year-earlier figures in most district MSAs, including Rochester, Minn., Fargo, N.D., Sioux Falls, S.D., and Minneapolis-St. Paul. A major retailer announced plans for a $2 billion mixed-use development in a Minneapolis suburb. A St. Paul suburb approved a 136-acre mixed-use development that will include 1,200 homes. A Duluth, Minn., developer broke ground on a $37 million hotel-condominium development. A bank director in western Montana reported rapid growth in residential and recreational construction in that area.

District residential real estate markets showed signs of cooling. A record number of new listings appeared in the Minneapolis-St. Paul metro area in October, while the number of buyers decreased, leading to longer sale times and a leveling in home prices. Realtors reported similar phenomena in Fargo, N.D., and Rochester, Minn. Meanwhile, commercial and industrial markets improved in Minneapolis-St. Paul.

Manufacturing
Manufacturing activity expanded. An October survey of purchasing managers by Creighton University (Omaha, Neb.) indicated strong manufacturing activity in the Dakotas and Minnesota. Based on preliminary results from the Minneapolis Fed's annual business poll (November), respondents from the manufacturing sector expect growth in company sales and employment in 2006. In addition, preliminary results from a survey of district manufacturers conducted in late October and November by the Minneapolis Fed and the Minnesota Department of Employment and Economic Development revealed that businesses expect production, productivity, and profits to increase in the first half of 2006 from a solid 2005. A medical device maker plans to double its manufacturing capacity at a plant in Minnesota. A wind turbine manufacturer is building a plant in Minnesota to meet the strong demand for new wind farms.

Energy and Mining
Activity in the energy and mining sectors was stable at a high level. Oil and gas exploration and production were about level from early August through mid-November. Meanwhile, biodiesel sales were temporarily halted in Minnesota over concerns that the fuel did not meet quality standards. Expansion of the district wind power industry continued. Mines in the western portion of the district were producing at near full capacity, except for a gold, silver, lead, and zinc mine in western Montana, which halted production for at least a month due to landslides at the open-pit operation. Taconite mines in northern Minnesota and the Upper Peninsula were operating at near full capacity.

Agriculture
The agriculture sector grew as yields and production were large for most district crops. Record yields for Minnesota corn and soybeans were reported by the U.S. Department of Agriculture. District corn and soybean production was larger than last year's bountiful harvest. The USDA reported that half the winter wheat crop is in good to excellent condition. A bank director noted that agriculture is as "good as it has ever been in Montana." The USDA raised its 2006 estimated prices for steers and hogs. However, profit margins were squeezed as corn and soybean prices decreased, while diesel, transportation, and fertilizer expenses increased. Preliminary responses to the Minneapolis Fed's third quarter (October) agricultural credit conditions survey indicated that overall agricultural income and capital spending would be down in the fourth quarter of 2005.

Employment, wages and prices
Labor markets tightened slightly since the last report. A bank director noted that the labor market for construction workers is tight in southwestern Montana, and a newspaper article reported a shortage of construction workers in Sioux Falls, S.D. Call centers were hiring more than 80 workers in central Montana. A career-resources company report showed that the Minneapolis job market posted steady growth from May through September. According to preliminary results of the Minneapolis Fed's business outlook poll, 54 percent of respondents said that securing workers was a challenge or serious challenge, up from 44 percent a year ago. In addition, 33 percent expect to hire more full-time employees in 2006, while 13 percent plan to decrease staff.

Wage increases were moderate. Preliminary results of the Minneapolis Fed's business poll show that 83 percent of respondents expect wages and salaries to increase 3 percent or less in their community during 2006; however, a number of respondents noted significant increases in healthcare benefit costs.

Significant price increases were noted for construction materials, plastics, and energy, while gasoline prices decreased. Several construction materials prices posted notable increases, including cement, carpet, copper, and resin-based products. A bank director noted that prices for plastic bags have increased over 20 percent. Fuel surcharges were reported on several goods, including grocery orders from wholesalers and freight on railroads. Wholesale natural gas prices are expected to rise by 40 percent during the winter heating season. However, unseasonably warm weather has kept increases in heating expenditure during October and early November relatively mild. Minnesota gasoline prices decreased by almost 60 cents per gallon between early October and mid-November, but were still 30 cents higher than a year earlier. According to the Minneapolis Fed's poll of manufacturers, 63 percent expect to raise prices during the first half of 2006; a year ago, 43 percent planned to raise prices.

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Tenth District--Kansas City

The Tenth District economy expanded solidly in late October and early November. Growth in consumer spending rebounded, and activity in the manufacturing and energy sectors continued to increase. Labor markets and commercial real estate activity also improved further, and agricultural conditions remained positive. Housing activity was largely unchanged. Wage pressures remained modest, but wholesale price pressures persisted and retail price pressures increased moderately.

Consumer Spending
Growth in consumer spending picked up in late October and early November, and contacts generally expect a solid if unspectacular holiday season. Most retailers, mall managers, and restaurants reported healthy year-over-year increases in sales in late October and early November, following somewhat weaker growth in the previous survey. However, several malls reported traffic was slower than usual due to unseasonably warm weather. Sales of women's apparel were reported as strong by many contacts. Store managers' expectations for holiday sales were generally upbeat, although some contacts expressed concerns about higher energy prices. Most retailers were satisfied with inventory levels heading into the holidays; however, a few were starting holiday promotions earlier than normal in an attempt to boost sales. Most auto dealers reported another decline in vehicle sales in late October and early November, with sales of SUVs said to be especially weak. Most dealers also expect continued slow sales in the months ahead. On the positive side, auto dealers were generally satisfied with inventory levels, which were lean coming out of the summer. Travel and tourism activity was at or above year-ago levels throughout the district. Airport traffic was up in most cities, and several hotels reported increased business due to the relocation of conventions from New Orleans. Tourism contacts generally expect solid activity over the holidays.

Manufacturing
District manufacturing activity continued to expand in late October and early November. Many plant managers reported further increases in production, shipments and orders, and factory activity was up solidly from a year ago. Hiring and capital spending at district factories also rebounded after slowing somewhat immediately following the hurricanes. Plant managers generally expect continued solid growth in manufacturing activity in the months ahead. Contacts in the aircraft industry were especially upbeat about future orders. Plant managers reported that several materials remained in short supply due to continued disruptions following the hurricanes. Material availability problems were generally expected to be resolved in the next few months.

Real Estate and Construction
Housing activity in the district was largely unchanged in late October and early November, while commercial real estate activity continued to improve. Builders reported that housing starts were generally flat since the previous survey and similar to year-ago levels. Starts are expected to largely hold steady in the months ahead. Several builders reported difficulties obtaining some materials, including lumber and concrete, but they expect availability problems to diminish in coming months. Some builders also noted sharp increases in lot prices in recent months due to land constraints. Real estate agents reported that home sales were up slightly from the previous survey and from a year ago, although some cities had excess inventories of unsold homes. Most agents expect flat home sales in coming months. Year-over-year home price growth remained moderate in most areas, and realtors expect modest growth in home prices heading forward. Mortgage lenders reported increased demand for new home mortgages, while demand for refinancings continued to decline. Mortgage demand is expected to be largely unchanged in future months. Commercial real estate activity in the district improved further in late October and early November. Vacancy rates edged down in several cities, while sales of office space were up in most cities. Commercial real estate agents generally expect continued improvements in office markets heading forward.

Banking
Bankers report that loans and deposits both edged up since the last survey, leaving loan-deposit ratios unchanged. Demand rose slightly for commercial and industrial loans, residential construction loans, home mortgage loans, and commercial real estate loans. Demand for consumer loans and home equity loans was flat. On the deposit side, large CDs and small time and savings deposits increased slightly, while transactions accounts were down somewhat. Other types of accounts held steady. Almost all respondents increased their prime lending rates since the last survey, and most respondents also raised their consumer lending rates. Lending standards were unchanged.

Energy
District energy activity continued to expand in late October and early November. The count of active oil and gas drilling rigs in the region increased further and was well above year-ago levels. Contacts in Oklahoma reported that several small independent drillers were reopening older wells, which can be operated profitably with sustained high oil and natural gas prices. Most contacts continued to report that drilling was being constrained by shortages of rigs, equipment, and workers, but firms generally expect further increases in drilling in the months ahead.

Agriculture
Agricultural conditions in the district remained generally positive in late October and early November. Warm and dry weather continued through the first half of November, contributing to favorable conditions for field work and pushing the emergence of winter wheat ahead of normal. The harvesting of major fall crops was ahead of last year's schedule and in line with five-year averages. Contacts expect large harvests even though yields will be off slightly. Conditions for livestock producers remained favorable due to lower grain prices. Incomes for both livestock and crop producers are expected to be strong in 2005, although higher energy costs continue to be a major concern.

Labor Markets and Wages
Labor markets strengthened further in late October and early November, but wage pressures generally remained modest. Hiring announcements were outpacing layoff announcements by a sizable margin up until the reported closing of an auto assembly plant in Oklahoma. A considerable number of call centers plan to add workers, and several large manufacturers in the district also announced workforce expansions. The percentage of contacts experiencing labor shortages was flat compared with the previous survey but up slightly from the summer. Specific types of workers reported to be especially difficult to find included unskilled manufacturing workers, all types of oil and gas workers, retail salespeople and managers, auto technicians, and nurses. The percentage of firms reporting wage pressures was up slightly from the previous survey but largely unchanged from the summer.

Prices
Wholesale price pressures remained high in late October and early November, and retail price pressures increased. The share of manufacturers reporting materials price increases remained at record levels. Price increases were reported for a wide variety of inputs, including steel, plastics, and other petroleum-based materials. The share of manufacturers raising output prices also remained very high, and plant managers expect materials prices and output prices to rise still further in the months ahead. Builders reported increased costs for many materials, including lumber, plywood, and drywall, and some contacts expect prices to continue to rise in the months ahead. Local utilities in the district expect residential heating bills this winter to be up by 30 to 40 percent from a year ago, assuming normal winter weather. The share of retail stores reporting higher prices than a year ago was up considerably from the previous survey, but a smaller share of stores plan price increases in the future. Most hotels raised room rates since the last survey and plan further increases in the months ahead.

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Eleventh District--Dallas

Eleventh District economic activity accelerated from mid-October to mid-November. The energy industry continues to clean up from the hurricanes, but activity is strong. Manufacturing activity rebounded, and demand for business services was up. Construction and real estate markets steadily improved, and retail sales were stronger than expected. The financial service industry reported little change in activity. Dry weather stressed ranching conditions but boosted cotton yields.

Business contacts were generally more optimistic about the outlook for economic growth than they were at the time of the last report, mostly because energy prices have subsided and are not showing signs of seriously disrupting economic activity.

Prices
Although prices for most energy products have drifted down since the last Beige Book, most contacts continue to express concerns about high utility and shipping costs. Prices have increased for some products and services, but many contacts say stiff competition is limiting price increases. Some manufacturers report that they have scheduled price increases for January 2006, and a few retailers confirm that they expect vendor price increases in the first quarter of 2006, but many retailers say stiff competitive pressures will limit their ability to increase final selling prices.

Crude oil prices weakened steadily since mid-October. The wholesale price of heating oil and diesel tended to follow the price of crude down, although strong diesel demand and the approach of the winter heating season kept distillates from falling as much as gasoline. Domestic demand for crude oil increased in October after plunging in September. Still demand remains weak at about 5 percent below normal. Crude inventories have been building and are now about 10 percent above normal. Distillate and gasoline demand bounced back sharply in October, and inventories are near normal levels. Imports of refined products are 70 percent higher than this time last year.

Natural gas prices have moderated from $14 per million Btu to below $12. Natural gas production in the Gulf of Mexico has come back slowly, but a combination of unseasonably warm weather and slow recovery of the petrochemical industry has kept natural gas inventories near normal levels. Industry contacts say that the first cold snap is expected to push natural gas prices back up.

Prices have increased significantly for basic petrochemical products, including polyethylene, acrylic, polypropylene, polystyrene, and PVC. Spot prices for caustic soda have doubled in recent weeks. Ethylene prices have risen sharply, as supply problems on the Gulf Coast were compounded by plant and pipeline outages in Canada. Transportation problems continue to plague the Gulf Coast with contacts complaining that they have difficulty arranging delivery if they can locate supply. Most commodity plastics and polymers have built margins to very favorable levels.

Prices are up for paper, clay, minerals, steel and aluminum. Contacts say copper prices are "setting records every other day." The high-tech industry reports price increases for some high-end products. Trucking firms say fuel surcharges and strong demand have pushed up shipping charges by roughly 15 to 20 percent. Rail shipping charges are also higher.

House prices increased at a slightly faster pace in recent weeks. Builders say they are concerned about higher prices for construction materials and fuel surcharges. There continued to be reports that investors are contributing to home price increases in Austin and San Antonio.

Legal firms report a 2 to 3 percent increase in fees, driven by rising health insurance and professional liability insurance costs. The accounting industry reports that salaries are rising, but it is more difficult to pass costs to clients.

Labor Market
There was little change in labor markets. There are scattered reports of hiring and shortages of some types of skilled workers, such as auditors, security technology workers, truck drivers and workers to supply the energy industry. There were some reports of layoffs in manufacturing, although there were also reports of hiring. The airline industry continued to report downward pressure on wages.

Manufacturing
Manufacturing activity rebounded, with ongoing recovery of facilities shut down after the hurricanes. Refinery capacity utilization on the Texas and Louisiana Gulf Coast has increased to 75 percent in early November from 40 percent in early October. Three refineries are still down, one is restarting, and two are operating at reduced rates.

The chemical industry continues to clean up from the hurricanes. Polyethylene production was hit hard by the hurricanes and continues to be disrupted with further outages and a transportation tie-up on the Gulf Coast. Supplies were tight prior to the storms, and inventories are now 10 days below normal. Roughly 16 percent of ethylene capacity remains down. Despite very high shipping costs, chemical imports are beginning to make their way into the U.S., responding to high prices. Contacts complained of chaotic shipping conditions and say trucks are in short supply.

Demand remained vibrant for most construction-related materials, such as lumber, cement, brick and glass. Contacts credited favorable weather and continued strength in residential construction. Demand was particularly strong for ready-mix concrete, and one contact reported meeting demand through cement imports from overseas, including Thailand, Korea, Europe and China. Inventories were low for many construction-related products.

High-tech manufacturers reported continued good growth in sales and orders. There was a slight pick up in the growth of orders for products containing semiconductors, such as digital televisions, music devices, DVD players and cell phones. There were reports of lean inventories for some products.

Paper producers said orders picked up over the past 30 days and were better than expected. The increase in activity was partly the result of competitors going out of business. There has been little change in the overall demand for metals. Some producers of primary metals reported a strong increase in orders to offset production lost due to hurricane damage in Louisiana and a labor dispute in Texas. There has been scattered softness in demand for food products, and inventories are up for some products. Apparel producers report stronger demand.

Services
Service sector activity increased. Temporary employment firms reported an unexpected and significant increase in billable hours. New business was primarily for call centers (some relocations from overseas), legal services, support services, auditing and tax services and information technology services (especially internet security) employees. Orders remained strong to supply workers to light industrial and steel manufacturers, telecom service firms and the oil and gas industry.

Legal firms reported good demand for their services. Litigation activity has slowed a bit, but transactional and real estate work is up. Accounting firms say activity is still strong, particularly for audit services, and many firms are expanding.

Transportation firms continued to report strong activity but are less optimistic than a month ago because of high fuel costs and expectations for slower economic growth. Demand remains strong for trucking and rail, and contacts say the industry is operating at capacity. One manufacturer reported that rail capacity issues were limiting expansion into new markets. Airlines reported stronger demand for air travel, partly stimulated by high gasoline prices boosting the cost of car travel. Some reductions in capacity have allowed air carriers to increase prices.

Retail Sales
Retailers reported good sales growth, although some noted that post-hurricane sales are hard to interpret given the influx of evacuees into the region. Still, sales have been better than expected, and contacts have become more optimistic about the outlook for holiday sales. Auto sales were mixed. Demand is strong for foreign cars, but sales of domestic vehicles are down over 30 percent. Domestic car makers are offering new incentives and they expect sales to pick up.

Construction and Real Estate
Real estate markets steadily improved over the past six weeks. Strong demand buoyed residential home construction. Existing home sales were strong in most major metros. Only Dallas/Fort Worth reported slower sales than expected. Hurricane evacuees are still stimulating demand for apartments, but contacts say this is perceived as largely temporary. While rental rates on new properties in Houston were reportedly up, Dallas rents were flat to down.

Demand for office space continued to pick up in major metropolitan areas, and rental rates edged up in Houston and Austin. In Dallas, however, some respondents expressed unease over increased construction in some Dallas markets despite a large amount of vacant space overall. Demand for industrial space in Dallas and Houston rose at a faster pace over the past six weeks.

Financial Services
Financial service activity is little changed according to contacts. Competition for loans remains fierce, but lending is strong and credit quality is good. There are reports of a pick-up in merger and acquisition activity. While the recent law change led to a flurry of personal bankruptcies, respondents said the write-offs are less than feared and should be only a temporary hit to earnings and uncollectible loans.

Energy
Energy activity continues to be strong, although the industry is still assessing hurricane damage. Exploration in the Gulf of Mexico has been reduced significantly by the storms, but activity has shifted elsewhere. The industry reports shortages of cement and sand. Capacity is being added aggressively in some lines of the oil service industry. The rig count has been unchanged in recent weeks, but an estimated 200 new rigs are under construction, with about 50 for offshore use. These will take from months to years to bring online. Contacts expressed concern that there would not be skilled crews available when they come on line and said training programs will be necessary to be sure there are adequate skills and labor to operate additional capacity. The industry is increasingly looking abroad for skills and labor.

Agriculture
Extremely dry weather stimulated better than anticipated cotton yields, but stressed pasture conditions, forcing ranchers to purchase supplemental hay and protein feed to maintain herds. Producers are very concerned about low crop prices and high costs for many inputs, including natural gas, fuel, chemicals, fertilizers and seeds. Many corn producers are expected to turn to another crop next year. Contacts in the banking industry say it will be difficult for several farm operations to be profitable at current crop prices and fuel costs.

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Twelfth District--San Francisco

The Twelfth District economy expanded at a solid pace during the survey period of mid-October through mid-November. Elevated energy prices kept input costs high in some industries, but overall price inflation was held down by limited pass-through of these input prices to final prices. Contacts noted little labor market slack in most areas, although significant wage increases were reported only for scattered groups of workers with specialized skills. Sales of most retail items except automobiles were solid, and service providers reported strong demand. Manufacturers and agricultural producers saw further growth in output and sales. Activity in residential real estate markets cooled in some areas but remained at high levels overall, while demand for commercial real estate improved further. District banks reported solid loan demand and good credit quality.

Wages and Prices
Contacts reported that increases in inflationary pressures generally were limited to products and services for which energy costs are a significant component, such as transportation services, fertilizers, and construction materials. In the transportation sector, fuel surcharges have become common and prices rose in general. In other sectors, stiff competition restrained most firms' ability to pass high input costs on to final prices. However, a few contacts reported a slight increase in pricing power and plans to raise prices by early 2006.

Contacts noted only limited labor market slack, with especially tight conditions evident for workers with specialized skills in the financial, construction, and health-care services sectors, some of whom saw considerable salary increases. Outside of these worker groups, salary pressures generally remained modest, although a few contacts noted significant increases in overall labor costs. Employers' costs for employee benefits reportedly rose at nearly a double-digit pace, substantially outstripping salary growth.

Retail Trade and Services
District retail sales improved following a slight lull during the last survey period. Consumer spending on food, apparel, and other small retail items was solid, with substantial growth in same-store sales reported in some areas. By contrast, automobile sales remained at low levels on net. Contacts noted good sales of imported vehicles but lackluster sales of domestic brands, as consumers continued to shift away from sport utility vehicles and trucks to more fuel-efficient models.

Demand for services was strong overall. Service providers in the food and beverage, health-care, media, and transportation sectors reported substantial sales growth. Activity in the travel and tourism sector remained robust. Hawaii is on track to set a record for tourist visits this year, and contacts reported rising hotel occupancies and room rates there and in California.

Manufacturing
District manufacturers reported solid demand during the survey period of mid-October through mid-November. Orders and sales of semiconductors rose, and capacity utilization inched up from already high levels. Demand for machine tools and industrial equipment has been strong, and it grew further during the survey period. In the aerospace sector, commercial aircraft production expanded to meet growth in orders, although overall activity in the sector was held down by a recent softening in demand for products related to national defense. District food processors saw strong orders and sales.

Agriculture and Resource-related Industries
Agricultural producers reported strong demand during the survey period and generally good supply conditions. Orders and sales were robust and prices were largely stable for a variety of agricultural products, including grains, vegetables, and livestock. Potato yields have been low, however, holding potato prices well above last year's level. Contacts reported that higher costs for fertilizers and other energy-intensive inputs have reduced profit margins, since agricultural producers generally are not able to pass these cost increases on to final prices.

Real Estate and Construction
Conditions remained robust overall in residential real estate markets despite slight moderation in some areas, and conditions in commercial real estate markets improved further. Home sales, price appreciation, and construction activity continued at rapid rates throughout the District, with especially strong demand noted for condominiums in Hawaii and in parts of the Pacific Northwest. However, cooling was evident in residential real estate activity in some markets--notably in Southern California, where existing houses remained on the market longer, inventories of new homes rose, and price appreciation slowed relative to previous survey periods. On the commercial side, office vacancy rates fell further and rents rose in most major markets. Builders indicated that strong demand for new residential and commercial structures, as well as continued hurricane-related supply disruptions, resulted in scattered shortages of materials that delayed some building projects. Rising materials costs associated with these developments also translated into price increases for new construction in some areas.

Financial Institutions
District banking contacts reported solid loan demand and good credit quality during the survey period. The volume of loans in most categories remained at high levels or grew further, although there were scattered reports of reduced demand for mortgage originations, construction loans, and business loans for capital spending purposes. Credit quality reportedly was good in all areas and improved further in some, notably in Hawaii.

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