The Federal Reserve Board

Beige Book

November 29, 2006

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

Summary

Reports on the Federal Reserve Bank of Atlanta and much of southeastern and Gulf Coast districts' economies indicated that activity was mixed to slightly positive since the previous Beige Book summary. Contacts remained cautious but generally optimistic about the near term.

Despite continuing softness in automobile and housing related sales, most districts reported modest to moderate growth in retail sales during the reporting period. Holiday sales were generally in line with expectations, but some districts saw somewhat weaker sales. Reporting retail contacts generally remained cautious about the near-term outlook for consumer spending, but maintained relatively positive overall. Gulf Coast districts reported a disappointing start to the holiday season, with sales running below expectations. Many retailers have continued slowing to manage inventory. Gulf Coast districts also reported that auto sales remained weak and inventories remained high.

Activity in business contacts remained cautious but relatively unchanged overall. Manufacturing activity was mixed, with some districts reporting slight increases and others reporting declines. Demand for business services was generally steady, especially in the Gulf Coast districts, where activity has been boosted by rebuilding efforts. Contacts in the Atlanta District and the Gulf Coast districts remained optimistic about the near-term outlook for business activity.

Most districts reported continued softness in vehicle sales, and the weather may be the Big Factor in December. Most are forecasting sales very similar to November's. Contacts in the Atlanta District and the Gulf Coast districts reported that sales remained weak. Dealers in the Atlanta District, like many in most of industrial vehicle sales since June-the Class 8 trucks. Contacts in the Gulf Coast districts reported that auto sales remained weak and inventories remained high.

Services and Tourism

Reports from the Atlanta District and the Gulf Coast districts indicated that demand for business services has remained overall unchanged in the past few months, although Tampa and Dallas noted that the demand for temporary workers had increased. Contacts in the Atlanta District and the Gulf Coast districts remained optimistic about the near-term outlook for business activity in the demand for temporary workers has

Economic activity in the Seventh District expanded at a modest pace during October and early November. Consumer spending continued to increase at a gradual rate, and business contacts remained optimistic about the near-term economic outlook. Auto sales were flat on a seasonally adjusted basis in net. Residential construction and real estate activity continued to decline in most areas, while nonresidential construction was mostly up modestly. Manufacturing production increased slightly, and mining activity was unchanged. Overall, employment grew at a moderate pace. Wage growth was modest, and prices rose slightly on net. Agricultural conditions were mixed. Crop yields were generally solid to very strong, but the fall harvest was delayed by wet weather. Livestock producers were hurt by declining prices.

Most reports indicated that consumer spending increased at a gradual pace during October and early November. Consumer spending strengthened despite slightly weaker auto sales, and many retailers reported solid increases in sales. Contacts were optimistic about the near-term outlook for manufacturing given modestly. Energy activity fell slightly but was still high by historical standards. Construction activity was mixed, with declines in residential activity and increases in nonresidential activity. Wage pressures were generally moderate, while price pressures eased slightly.

Consumer Spending

Consumer spending increased at a moderate pace during October and early November. Auto sales were flat on net. Contacts reported that sales were strong in the weeks leading up to Christmas.[1] Nonetheless, retailers were said to have taken a conservative approach to inventories. Restaurant sales were higher than expected over the past six to eight weeks, one contact noted, and hotel occupancy rates were at seasonal highs. Tourism was reported to be strong throughout the District, and contacts were optimistic about the near-term outlook for leisure travel.

Business Spending

Business spending and hiring were spots in the District. For the most part, capital spending increased at a moderate pace during October and early November. Many manufacturers reported plans for further capacity expansion in 2007, a sentiment most pronounced in the machinery and metals industries. Construction activity was mixed. Nonresidential construction was up and expanded. Overall, labor market conditions were little changed, with small gains in employment in net. Manufacturing employment was mixed by industry. Temporary help services firms reported that demand was flat to down in October and early November. In contrast, an automaker said that the planned reductions in their workforce were running ahead of schedule. Wage pressures were generally moderate, while price pressures were mixed. The District was a bit softer, but the Kent cattlefair was favorable as livestock sellers had maintained their previous weight.

Construction and Real Estate

Activity in the residential real estate market continued to decline in most areas and weaken segments. The monthly exception was the Milwaukee area, where homebuilders reported high levels of activity and sales. Sales of existing homes were down in most areas. Many contact said that for sales were soft and that some people who already owned low rates were reluctant to sell their homes. Some contacts noted that sales were strongest in the price ranges in which they were active. Nonresidential construction was mixed. Contacts reported that new plants and expansions of existing facilities have been put on hold because of the tight credit conditions in the commercial real estate market. Vacancy rates were down in most parts. In other areas, investors remained the feasibility of their plans based on the rapid appreciation in property values that occurred in recent years. Rents were generally up to the highest levels ever. In addition, District lenders reported that they were generally more willing to make loans.

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Eighth District--St. Louis

Economic activity in the Eighth District expanded at a moderate pace since our previous report. Manufacturing activity increased modestly, while growth in the services sector remained solid. Retail sales were mixed, but on balance, they were slightly stronger. Auto and Snowmass contacted with a slow. Prices rose at a moderate pace overall, and wage increases were mixed but remained moderate. Reports on District banks changed little in the three-month period ending in October.

Consumer Spending

Contacts reported that retail sales in October and early November were up, on average, over the same period a year earlier. However, sales were mixed across the District and by retail channel. Ten percent of the retailers reported that sales were less than expected, while 30 percent reported sales were greater than expected. Fifty percent reported that sales were as expected. Also, 28 percent reported an increase in new and vehicle sales relative to the same period a year ago, 28 percent reported a decrease, and 44 percent reported no change. Ninety-seven percent of the contacts reported an increase or expansion since our previous application. Nearly 30 percent of the auto executives reported that their inventories were too high, and 70 percent reported that they were about right. Only 1 percent reported that sales for the next two months will increase over 2005. Nearly 70 percent expect sales to remain flat.

Manufacturing and Other Business Activity

Manufacturing activity expanded modestly since our previous report. While the majority of contacts reported that activity was unchanged, 30 percent reported an increase. Several manufacturers reported plans to place operations and lay off workers. Firms in the machinery, metals, and transportation equipment industries reported increases in activity. Industrial commercial plans to open or expand facilities in the District. Contacts in the food, chemical, and plastics industries reported plans to hire additional workers. In contrast, firms in the printing industry reported declines in activity. Firms in the apparel, lumber, and paper industries, agriculture, furniture, and auto parts industries reported plans to lay off workers.

The District's services sector continued to expand in most areas. Contacts in the freight transportation, professional, and business services industries reported plans to open or expand facilities in the District. A contact in the data processing services industry reported plans to increase employment substantially over the next two years. Contacts in the health care industry reported plans to hire workers.

Real Estate and Construction

Residential real estate activity throughout the District. October 2006 the same period a year ago. Contacts reported that the number of unsold homes in the District has increased. The same facts showed some planning of winter wheat. Contacts in the Memphis area reported that the number of the unsigned winter wheat in the District since is stated in fair condition or better.

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Ninth District--Minneapolis

The Ninth District economy grew since the last report. Increases in activity were noted in consumer spending, manufacturing, energy, mining, and agriculture. Meanwhile, tourism activity was mixed, residential construction declined substantially, and commercial activity was a tighter labor market was noted. Overall price increases were modest on fuel prices decreased.

Consumer Spending and Tourism

Reports on retail sales were mixed. Generally, prospects for holiday sales were generally positive. A major Minneapolis-based retailer reported same-store sales up about 4 percent in October compared with a year ago. Boosts sales at a Minneapolis area mall were up 4 percent in October and 5 percent in November. Sales at a Fargo, North Dakota, mall were flat in October and were up 3 percent in October compared with last year, according to the mall manager. Sales at a Rochester, Minnesota, mall were down 1 percent in October and up 1 percent in November. Sales at a Duluth, Minnesota, mall were down 2 percent in October and up 2 percent in November. Sales at a Bismarck, North Dakota, mall were down 1 percent in October and up 1 percent in November. Sales at a Sioux Falls, South Dakota, mall were down 1 percent in October and up 1 percent in November. Sales at a Billings, Montana, mall were down 1 percent in October and up 1 percent in November. Sales at a Great Falls, Montana, mall were down slightly from a year earlier, but dollar sales per square foot were up 2 percent. Sales at a Missoula, Montana, mall were down 1 percent in October and up 1 percent in November. Sales at a Billings