The Federal Reserve Board

October 27, 2004

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

Summary

Reports in the Federal Reserve Board's 10 Energy Issues in attendance collected before October 20, 2004, indicate that economic activity continued to expand at a moderate pace in most areas.

Reports in nearly all districts indicated that economic activity continued to expand at a moderate pace in recent weeks. Manufacturing activity was generally characterized as continuing to expand at moderate and orderly clip. Districts, Philadelphia, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco reported that activity in the factory sector was up and that new orders and backlogs were also on the rise. In contrast, activity in the manufacturing sector was described as flat in the Boston, New York, Richmond, Atlanta, and St. Louis districts. Retail sales were characterized as increasing moderately in the Boston, Philadelphia, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco districts. Sales were described as flat in the New York, Richmond, Atlanta, and St. Louis districts. Reports on consumer spending in September and early October were mixed for Boston and Philadelphia districts. In contrast, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco districts reported that sales were up and that consumer spending was strong

Business spending

Business spending rose again in the latest reporting period, with more firms noting increases than decreases. Spending was mostly directed toward plant and equipment, to accommodate expansions and catering to incentives, contributed to higher capital outlays. Heating and air conditioners continued to report spending on higher-efficiency units that could help reduce energy costs. Some manufacturers reported spending on computer-controlled machinery that could increase production and improve quality. Most expect to keep capital outlays near the current levels for the next few months. With regard to hiring, one large firm indicated that year-over-year growth in billable hours had fallen considerably in September, and it planned to reduce its workforce by 5% to 10% through attrition. Several other billed positions, destined for professional and technical workers retained very strong demand. Most firms reported that they had adequate staffing levels. Some manufacturers indicated that they had recently hired, or planned to hire, additional workers in response to increased orders. Most firms reported that they had adequate staffing levels. Some reported instances of poor-performing hiring, although reported turnover rates were low. Most contacts said that they were receiving lower applications for open positions.

Construction/real estate

Overall construction and real estate activity remained robust. Realtors and builders contacted reported that sales were steady to strong. Most said that inventories were adequate, but some reported in recent days that they had expected. A builder in one large market said that September's sales had come in below year-earlier levels for the third straight month, although he noted that the pace of sales had been relatively strong in the first half of the month and slowed toward the end. While most contacts maintained a bullish outlook for home sales, a few reported that they were concerned about the future. A realtor in a large urban area, office leasing activity seemed to pick up in recent weeks. One contact said that net absorption of office space had been positive in the past two months after a period of negative absorption; however, vacancy rates remain elevated in some submarkets. Industrial space remains the weakest in existing quarters. Retail development and leasing activities were again robust. Contacts in the hotel industry reported strong occupancy rates.

Manufacturing

Manufacturing activity expanded solidly, and strength was widespread across many of the Eighth District's industries. Factory output, new orders, and orders from abroad continued to increase at a moderate pace. Manufacturers reported that supply chains were functioning well. The production of machine tools was particular pleased with the "depth and breadth" of demand for their products. Orders remained at very strong levels for all three years. Furthermore, shipments and orders for heavy equipment supported by construction, mining) remained strong. This activity, and labor factor, continued to boost the demand for steel products. Producers of steel products, such as fabricated metal products, such as steel cans and various castings, were no longer driving purchases and were no longer driving purchases