



November 29, 2006

## Summary

Summary

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Prepared at the Federal Reserve Bank of Atlanta and based on information collected before November 20, 2006. 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.

Most Federal Reserve Districts reported continued moderate growth since the last report. However, New York and Richmond observed that growth accelerated, whereas Dallas said the pace of activity continued to decelerate from high levels, and Atlanta described activity as mixed.

Despite continuing softness in automobile and housing-related sales, most Districts reported that consumer spending increased during October and early November, and the retail sales outlook for the holiday season was cautiously optimistic. According to most reports, growth in other service-producing industries remained generally solid. Manufacturing activity was positive overall, with the weakest reports concentrated among auto and housing-related producers. Reports on housing markets continued to indicate an overall decline in single-family home sales, and there were some reports of lower home prices. Indicators of single-family construction continued to weaken in most Districts. However, housing demand continued to be strong in a few specific markets, and nonresidential activity generally improved. Many Districts noted a continued slowing in mortgage lending, while reports on other lending were mixed. Some Districts reported a slight increase in delinquencies.

A number of Districts continued to report that labor markets were tight, especially for high-skilled occupations. Wage growth remained generally moderate, although some Districts gave accounts of stronger wage pressures for some specialized professions. Most Districts reported that prices moderated for construction materials and energy products.

### Consumer Spending

Most Districts reported increased consumer spending overall. However, there was some regional variation in the rate of increase. For instance, solid

increases were reported by Kansas City and Richmond, while modest improvements in retail spending were noted in the Atlanta, Chicago, Minneapolis, New York, and St. Louis Districts. Meanwhile, sales softened in the Boston District and were below expectations in the Dallas District. Strong selling products varied by region, but most Districts reported that sales of home-related items remained weak. Several Districts noted a cautiously optimistic outlook for the holiday season. Atlanta reported that high-end and electronics merchants were upbeat, while more modest gains were expected from other retailers. Kansas City and Minneapolis District merchants were said to be positive headed into the holiday season, and sales in the New York, San Francisco, and St. Louis Districts are expected to exceed year-ago levels. However, retail contacts in Boston remained concerned about the downturn in the housing market, and Dallas described retailers as more guarded.

Most Districts reported continued softness in vehicle sales, led by weaker sales for the Big Three U.S. auto makers. Slow or declining sales were noted by Philadelphia, Cleveland, Kansas City, Dallas, and San Francisco, and high vehicle inventories were reported by several Districts. The only account of improved vehicle sales came from St. Louis, while Chicago described auto sales as steady.

### **Services and Tourism**

The demand for services remained healthy according to most reports. Boston reported that conditions were good for firms providing software and information technology services, particularly for companies catering to the health care and energy sectors. San Francisco noted that service providers experienced generally strong demand, especially in the food and beverage, health care, and transportation sectors. New York and Richmond noted solid business activity in the financial services sector.

The Atlanta, Boston, Minneapolis, New York, and Richmond Districts indicated that temporary staffing firms experienced solid demand for their services, although Chicago and Dallas noted that the demand for temporary workers had softened. The Atlanta and Cleveland Districts reported disappointing demand for freight services. Atlanta noted that much of the weakness was concentrated in businesses specialized in moving building materials, while Cleveland reported softness for shipments of auto-related products. St. Louis noted that the local freight transportation sector was expanding. Dallas observed that transportation demand was good, although contacts are anticipating slower growth in coming months.

Reports from the tourism industry were generally positive. Atlanta said that the Mississippi Gulf Coast gaming revenues returned to near pre-Katrina levels in October on the strength of re-opened casinos. Kansas City noted continued high hotel occupancy and solid airport traffic. Boston reported that tourism was currently "going gangbusters" and that business travel was strong. Richmond and New York also observed that tourism was stronger than in the last report.

**Manufacturing**

Manufacturing activity was generally positive in most Districts. New York said manufacturers noted brisk growth in activity. Boston, Dallas, Kansas City, and San Francisco reported that production trends in high-tech industries were positive. Cleveland reported that durable goods production was up slightly on a year-over-year basis, although demand for steel products continued to soften. Manufacturing in the Chicago District expanded at a modest pace, with manufacturers of machine tools and equipment reporting strong demand outside of the motor vehicle industry. Dallas noted that energy-related manufacturing activity remained strong. In the Philadelphia region, manufacturers posted small increases in shipments, but there were also marginal declines in new orders. Most Districts reported that orders for homebuilding materials and related equipment have trailed off substantially. In addition, some softness in auto and auto-related production was noted by Atlanta, Chicago, Cleveland, Kansas City, and St. Louis.

**Real Estate and Construction**

Almost all Districts reported that overall housing market activity continued to slow, especially in the single-family segment. Most Districts cited declining sales and rising home inventories. There were also scattered reports of price reductions, while the use of non-price sales incentives was reported in the Cleveland, Dallas, New York, Philadelphia, and San Francisco Districts. Most Districts reported declines in residential construction. For instance, according to Cleveland, contractor backlogs decreased about 30 percent and fewer spec homes were being built. Several Districts indicated that weak conditions are expected to persist over the next several months. New York and Dallas noted improved demand for rental housing, while Dallas reported that condominium construction remained robust. Atlanta observed rising condominium vacancy rates in some markets.

According to most reports, nonresidential markets improved since the last report. Strengthening demand for office space was seen in the Boston, Dallas, Kansas City, Minneapolis, New York, and Philadelphia regions. However, some slowing was noted in the Chicago District. Atlanta noted that the overall level of nonresidential construction remained modest. In the San Francisco District, commercial and public project activity continued to expand, although the pace of growth was slower than earlier in the year.

**Banking and Finance**

Lending activity was mixed since the last report. Most Districts noted fewer mortgage originations, although Chicago reported that mortgage refinancing activity firmed. The demand for commercial and industrial loans was stable or slightly higher in some Districts. Overall credit quality was described as good, although Chicago, Cleveland, and San Francisco reported small increases in delinquencies. Tighter credit standards were noted in the St. Louis and Richmond Districts.

**Labor Markets and Prices**

Reports suggest that labor markets remained tight since the last report,

especially for high-skilled occupations. Richmond reported strong demand for workers with sales, life sciences, engineering, and financial skills. Boston said that there was strong demand in industries such as health care, biotechnology, and engineering. Kansas City noted shortages of engineers, oil field workers, accountants, welders, sales people, and truck drivers. New York said that labor markets have strengthened in a number of industries, including manufacturing, legal services, and banking. Atlanta and Philadelphia reported that retailers were finding it difficult to fill holiday-related positions. Dallas noted that labor shortages were acting as a capacity constraint for some firms. Overall labor market conditions were little changed according to Chicago, with small gains in employment on net.

Wage growth remained generally moderate, but Boston, New York, and San Francisco reported faster wage growth for some specialized professions. San Francisco noted continued rapid wage growth for health care, finance, and construction workers. According to Boston, pay levels for professional and technical jobs were being boosted in order to recruit new workers and reduce staff turnover. Employers in the Philadelphia District indicated that wages have been rising more rapidly in the past few months than earlier in the year, whereas the pace of wage increases was steady according to Chicago.

Most Districts reported that prices moderated for construction materials and energy products. Kansas City noted that prices for some building products have moderated because of the combination of lower demand and reduced transportation costs. However, Minneapolis reported further price increases for roofing shingles and foam rubber, and Cleveland noted that prices for petroleum-related products remained high. Atlanta and Chicago observed that lower energy prices had led to a decline in some fuel surcharges. According to Philadelphia, price increases were not as widespread as they were earlier in the fall. Richmond said that prices for manufacturing inputs and finished goods rose since the last report, and Chicago noted that toolmakers and food processors reported raising prices.

### **Agriculture and Natural Resources**

Farm conditions were generally good, although there were reports that excessive rains delayed harvest and field work in the St. Louis and Richmond Districts. Higher prices for corn and soybeans benefited farmers in the Minneapolis and Kansas City Districts. However, the higher feed costs hurt poultry and livestock producers in the Atlanta, Chicago, Kansas City, and Dallas Districts.

Activity in the energy and mining sectors was generally robust in late October through mid-November. Dallas, San Francisco, and Minneapolis reported that energy extraction activity was strong, while Kansas City noted that activity declined moderately but remained high by historical standards. Atlanta said that much of the post-hurricane infrastructure repair work had been completed in the Gulf of Mexico, and Dallas noted that the Gulf Coast refineries are now operating at high levels.

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**Last update: November 29, 2006**