The Federal Reserve Board

December 1, 2004

Summary of Commentary on Current Economic Conditions by Federal Reserve District

Summary

Prepared at the Federal Reserve Bank of Dallas and based on information collected before November 22, 2004. 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.

Reports from the twelve Federal Reserve Districts generally paint a picture of continued economic growth from mid-October to mid-November, with a number of areas improving. Eleven Districts reported expanding economic activity, with New York, Philadelphia, Atlanta, and Dallas noting a pickup in the pace of expansion since their last reports. Minneapolis indicated that the expansion in that District was broad-based, and San Francisco described the region's activity as solid. The Richmond, Chicago, and Kansas City Districts saw moderate gains in economic activity while St. Louis viewed the gains there as modest. Only the Cleveland District reported little change in economic activity.

Overall consumer spending was uneven since the last Beige Book, with only a few Districts reporting stronger retail sales and many noting mixed, flat or slower sales. Automobile sales were flat to down across most Districts, and several Districts reported higher dealer inventories than desired. In contrast, manufacturing and service sector activity increased across the country. Residential real estate activity generally remained at high levels, but continued to show signs of cooling in a number of Districts. Nonresidential activity, while still sluggish in many areas, appeared to be turning the corner in several Districts. In credit markets, business lending was strengthening, but the pace of consumer and mortgage lending was mixed across the country. Contacts in the securities industry reported increased inflows into stock mutual funds and noted a pickup of stock issuance and merger-related activity. Many agricultural producers across the country said they were looking forward to large or record crop production. Energy-related activities remained strong.

Consumer Spending

Consumer spending was uneven from mid-October to mid-November. Retail sales increased in the Atlanta, Kansas City, Minneapolis and Philadelphia Districts and were "solid" in the San Francisco District. Sales were mixed in the Boston and Dallas Districts but were sluggish or lower in the Chicago, New York, Richmond, and St. Louis Districts. Retailers in the Dallas, Kansas City and New York Districts reported that demand for premium merchandise has been noticeably stronger than that for lower-priced lines, with some contacts suggesting that lower-income households might have been more greatly affected by high energy prices. Inventories appear to be in line with sales, with only the Boston District reporting that retail inventory levels were up slightly.

Automobile sales were flat to down across most Districts. The Chicago, Cleveland, Dallas, Kansas City and San Francisco Districts reported that dealer inventories were higher than desired.

Manufacturing

Manufacturing activity increased across the country. Nine Districts reported a pickup in production, with only the Cleveland, Richmond, and San Francisco Districts noting that activity was unchanged or expanding more slowly than was reported in the last Beige Book. Overseas competition continued to weigh on several industries, but a number of reports noted increased capital investment and hiring. Manufacturers remained concerned about high energy prices and rising prices for other inputs.

Orders were strongest for chemicals, food, and products to supply the aerospace, agriculture, energy, medical, defense and construction industries. Both the Chicago and San Francisco Districts noted a pickup in bookings for machine tools. The Chicago and Cleveland Districts reported some slowing in domestic steel production, in part because of imports. Furniture production weakened in the Boston, Philadelphia, and St. Louis Districts, but turned up in the Richmond District. Richmond also reported that the textile business was unseasonably slow, but demand for apparel and textile products was reported as "robust" in the San Francisco District and up from three months ago in the Dallas District.

Transportation manufacturing was mixed. The Chicago District reported new orders for heavy trucks were "at extremely strong levels," with production constrained by shortages of engines and other parts. Slowing demand for automobiles and auto parts were seen in the Chicago, Cleveland, Philadelphia and St. Louis Districts. At the same time, the Atlanta District reported a recent announcement of additional auto parts manufacturing plants.

Conditions in the high-tech sector also were mixed. The Boston District reported a considerable softening of orders for semiconductors and related equipment in the third quarter. In the San Francisco District, sales and orders were unchanged for semiconductors and other high-tech products, which led to rising chip inventories and a slight drop in capacity utilization. In contrast, the Dallas District noted continued growth in production and orders for high-tech products.

Services

Service sector activity was strong or increasing among the Districts reporting on that sector. Tourism activity was slightly improved across much of the nation. Demand for workers at temporary employment agencies picked up in the Boston, Chicago, Dallas, Richmond and New York Districts. Shortages of temporary workers were reported in the Boston and New York Districts, and the Boston, Chicago, and Dallas Districts reported an increase in the number of temporary workers obtaining more permanent positions. Business activity sped up at software and information technology services firms in the Boston District, while demand for legal and accounting services was reported as strong in the Dallas District.

Demand for transportation services was reported as robust. Shipping firms in the Cleveland and Richmond Districts increased rates to offset higher fuel costs. Seaports in the San Francisco District continued to handle very high volumes, with delays developing at some ports. Prices for ground and sea transport were rising in response to bottlenecks.

Construction and Real Estate

Residential real estate activity was still robust in late October and early November, although some signs of cooling were noted by the Atlanta, Chicago, Cleveland, Dallas, Kansas City, Richmond and San Francisco Districts.

Commercial real estate markets remained weak, with high vacancies and low--even falling--rents. Nevertheless, several Districts noted that levels of excess capacity continued to ebb. Districts reported that nonresidential construction continues to be at low levels. However, leasing activity was up in the Dallas and Richmond Districts. The Atlanta and Minneapolis Districts noted lower commercial vacancy rates, and San Francisco District contacts indicated that office and industrial vacancy rates were edging down. In contrast, the New York District reported weakening in commercial markets, where strong leasing activity was outpaced by an increased availability of space.

Banking and Finance

Overall lending activity was mixed, and credit quality remained good across the nation in the past few weeks. Business lending firmed in a number of areas, but residential mortgage lending and refinancing activity softened further. Lending overall increased in the Philadelphia and Richmond Districts, slowed slightly in the New York District, and was "well below expectations" in the Chicago District. The Kansas City and San Francisco Districts reported little change in loan demand, with the latter District noting that loan demand was "solid." Deposit growth picked up in the Cleveland, Dallas and New York Districts, with no reports of changes elsewhere.

Demand for commercial loans strengthened in many Districts, but the Atlanta District noted that commercial loan demand remained at low levels overall.

Reports on consumer lending were more mixed. Chicago and Philadelphia District bankers said demand increased slightly for household loans, with notable gains in home equity lending in the Philadelphia District. Consumer loan demand continued to be strong in the Atlanta District, and was "steady" in the Cleveland District. On the other hand, lending declined in the Kansas City and New York Districts.

Residential lending was also uneven across the country. Demand for mortgages slowed in the Dallas, New York, and San Francisco Districts, but picked up in the Chicago and Philadelphia Districts while remaining flat in the Kansas City and Richmond Districts. Refinancing activity slowed in the New York, Philadelphia, and San Francisco Districts and remained light in the Richmond District.

Overall credit quality remained unchanged or improved. Credit quality improved in the Chicago District, and continued to be good in the Atlanta, Cleveland, Philadelphia and San Francisco Districts. The Kansas City, New York and Richmond Districts reported little or no change in credit and/or lending standards.

The New York and Philadelphia Districts reported a noticeable pickup in the securities industry since the last Beige Book report. In the Philadelphia District, investment companies and stockbrokers have received strong cash inflows, and some securities firms are raising staffing levels. The New York District saw increased inflows into equity mutual funds, and the investment banking community reported a pickup in stock issuance and especially in merger and acquisition activity.

Agriculture and Natural Resources
Recent wet weather delayed field work in many areas, but large or record crop production is anticipated by farmers across much of the country. Above-average quality and yields, especially for corn and soybeans, were reported by producers in the Richmond and Chicago Districts as well as in the Kansas City District, where agricultural lenders anticipate farm income to set record highs this year. The Minneapolis and St. Louis Districts also reported favorable yield and production estimates. A record cotton crop is anticipated in the Dallas District, and estimates of cotton production were revised up in the Atlanta District. The hurricanes seriously affected production of several Florida crops.

In the Chicago District, livestock producers were benefiting from lower feed costs. The Dallas District reported strong demand for calves and feeder cattle. Ranchers in the Kansas City District remained reluctant to expand herds.

Energy activity remained strong, but the pace of growth was mixed. Oil field activity was up in the Minneapolis and Dallas Districts and at full capacity in the San Francisco District, but the Kansas City District reported a slight easing since the previous survey. Several oil and gas pipelines in the Gulf of Mexico remained off-line because of storm damage.

In the Kansas City District, "About half of the contacts continue to report constraints on drilling due to labor and equipment shortages. Absent these constraints--which are expected to persist for at least another six months--contacts believe drilling could increase by 10 to 20 percent." The Dallas District noted potential for continued expansion in oilfield equipment manufacturing, oilfield construction, shallow offshore drilling and some oilfield services, but also saw shortages of steel products in the oil patch.

Iron ore mines in the Minneapolis District were producing at capacity, with capital expansion under way. In addition, other mining companies were expanding and investing in capital equipment in Montana.

Prices
Increased cost pressures were reported by firms across the country, particularly for energy, transportation, food and petroleum-based products. While competition limited the ability of producers to pass higher costs forward, several Districts noted that some industries were successful in passing along cost increases. For example, the Chicago District reported that an increasing number of firms were able to pass higher input costs along to their business customers. The Boston District reported that customers had become more tolerant of price increases that were attributable to rising materials and energy costs.

Retailers have been less successful passing along cost increases than manufacturers, with most Districts reporting little change in retail prices. Contacts in the Boston and Chicago Districts posted some price increases at restaurants to offset higher food costs. Automobile dealers in several Districts have increased their use of rebates, promotions and sometimes substantial incentives. Makers of IT products in the San Francisco District reported additional price declines for some of their goods and services, including an acceleration of price declines for some types of semiconductors.

Continued cost increases for some building materials were reported in the Atlanta, Cleveland, Kansas City, Minneapolis, New York, Richmond and San Francisco Districts. Cement has been in short supply, and prices have risen for both concrete and cement. Steel prices also rose. While construction-related steel shortages eased in the Chicago and San Francisco Districts, there were reports of shortages of specialty steel in several Districts.

A slight cooling in the pace of home sales dampened home price increases in some markets. Home prices in the Dallas District softened further since the last Beige Book. The New York District reported that while housing demand remained strong, prices had leveled off in parts of New Jersey. A slight slowdown in home sales led to some moderation in home price appreciation in the San Francisco District. Home prices were up slightly in the Kansas City District and continued to rise at a steady pace in the Philadelphia District.

Solid U.S. production pushed down prices for corn, soybeans and cotton, but significant crop damage in Florida pushed up prices for tomatoes, peppers and other key Florida crops. Contacts in the Chicago District were concerned that higher fuel and fertilizer costs would partly offset gains in farm income.

Labor Markets
Labor markets continued to improve over the past few weeks, with numerous reports of hiring. The Atlanta, Chicago, Kansas City, Minneapolis and New York Districts reported increased hiring or improved labor markets. Contacts in several Districts noted difficulty finding workers for specific occupations, such as accounting, construction and skilled professionals in the energy industry.

There continued to be little wage pressure in most Districts, although a few Districts noted that higher benefit costs are pushing up total compensation. Only the Chicago District reported that overall wages increased at a slightly faster pace. Temporary employment firms in the Boston and Dallas Districts expressed concerns about cost increases, particularly for medical, worker's compensation and state unemployment insurance, and said they were attempting to pass these cost increases on to customers.

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First District--Boston

The First District economy continues to expand. Retailers saw somewhat mixed results in October and early November, although tourism continues to improve. Manufacturing firms report business continues to pick up. Demand for temporary employees as well as for software and IT services is said to be expanding solidly. Commercial real estate markets remain sluggish.

Retail and Tourism
Most First District retailers cite little growth in October and early November. Respondents report a slowdown in casual dining compared to previous months and year-ago levels. Several store chains report sales increases in October and early November in the 4 percent to 8 percent range year-over-year. Within this group, however, a seller of health and beauty products says month-to-month comparisons have been on a downward trend throughout the year, and a clothing retailer says sales picked up markedly in November. Furniture stores report sales are flat to down 8 percent compared to last year, and hardware sales are slightly behind year-ago levels.

Inventory levels are up slightly according to most contacts. A number of respondents report increasing vendor prices, particularly for food items, and petroleum- and steel-based products, but changes in selling prices are reportedly mixed. Clothing prices declined as lower priced items were included in the product mix, casual dining prices increased modestly, and increases for other retailers were minimal. Employment levels are said to be mostly steady, while acquisitions and seasonal hiring have resulted in some headcount increases. Most respondents report capital spending is in line with plan, some below year-ago levels and some above due to store openings, acquisitions, or increased spending on technology.

Travel and tourism revenues in northern New England were reportedly stronger in September and October than a year earlier, a result of nice weather and long-lasting, bright foliage. Travelers continue to come mostly from driving distances, while international travel increases at a moderate pace. According to respondents, increasing business travel and the opening of several quality hotels have helped boost tourism revenues in Boston this fall. Occupancy rates and prices are said to be on the rise.

Most contacted retailers anticipate that sales will improve slowly in early 2005, while some expect no change. Respondents express uncertainty and caution about rising fuel, energy, and commodity prices, consumers' price-sensitivity, and declining consumer confidence.

Manufacturing and Related Services
Most First District contacts in manufacturing and related services report that sales in the third and fourth quarters of 2004 have been ahead of year-earlier levels and remain on an upward trajectory. Equipment manufacturers serving defense, medical, automotive, and construction markets are doing particularly well. Some respondents have been able to capture market share by offering more comprehensive or innovative products to their customers.

Makers of semiconductors and related equipment report that incoming orders softened considerably starting in the third quarter. They attribute much of the new weakness to greater caution among customers serving consumer electronics markets, and they expect the slowdown in orders to remain in effect until early 2005. Furniture manufacturers and their suppliers also suffered major slowdowns in the third quarter, but they disagree about whether these markets are likely to reverse course in the coming months.

Manufacturers report continuing, major cost increases for steel, natural gas, and petrochemicals. Prices have also risen substantially for copper and paper. Most respondents say that in recent months their customers have become more tolerant of price increases attributable to rising materials and energy costs. Nevertheless, the recent pricing adjustments typically do not compensate manufacturers for the increases in input costs that they experienced earlier in the year.

Most manufacturers are holding their U.S. headcounts fairly flat except for acquisitions. Contacts with rapidly growing sales are adding employees, while those in the semiconductor and furniture industries are laying off. Pay increases in 2005 are expected to remain in the 3 percent to 4 percent range, but engineering pay is rising more rapidly. Respondents report difficulties in finding skilled technical and accounting professionals, as well as skilled machinists and toolmakers. Manufacturers generally expect their domestic capital expenditures to rise in the coming year, albeit to varying degrees. The added capital is usually aimed at improving productivity and developing and manufacturing new products.

Most contacts are at least moderately encouraged by their company's prospects in 2005.

Some express concerns about possible further increases in energy prices, competitive pressures to reduce selling prices or spend more on marketing, or the down cycle that has started in semiconductors.

Temporary Employment
Demand for temporary workers in the New England region grew at a solid rate in Q3 and early Q4, across a wide range of job types and geographic locations. The supply of available candidates is reportedly dwindling and is starting to affect business in some cases. Downward pressure on prices continues, but temp firms are holding the line or even gaining small increases in some cases. Most costs are under control, but medical, worker's compensation, and state unemployment insurance expenses continue to rise. Respondents are largely positive in their outlook and expect demand growth to settle in at a "moderate but healthy" rate in 2005. They cite continuing increases in permanent and temporary-to-permanent job placements and the end of election-related uncertainty as reasons for optimism, but tightening labor supply, the war in Iraq, and high fuel prices as causes for concern.

Commercial Real Estate
Commercial real estate markets in New England remain sluggish. Contacts report few changes over the past quarter. Although some areas have experienced positive market absorption, continuing slow job growth in the region has generally failed to help the already lackluster markets. Boston has experienced the fourth consecutive year of negative market absorption, its worst streak on record. Office vacancy rates remain in the mid-teens in Boston, and exceed 20 percent in the suburbs. Recent mergers have raised vacancy rates by 2 to 3 percentage points, according to some estimates. While office rental rates have not changed during the past three months, buyers of office buildings continue to be willing to pay "exorbitant" prices. Contacts do not expect conditions to improve markedly until the region's economy strengthens and job growth picks up.

Software and Information Technology Services
Business activity is said to be speeding up at First District software and information technology services firms. All respondents report positive year-over-year revenue growth in the third quarter, ranging from single to high double digits. Headcounts remain flat, with a little hiring in sales and services; almost all contacted companies have started to raise pay. They say that voluntary turnover is increasing, indicating the labor market is improving. Capital and technology spending is reported at the usual level.

Contacted software and IT services companies' overall outlook is cautiously optimistic. Some respondents have highly positive assessments, reporting increasing backlogs and strong pipelines, while others are quite cautious, especially in relatively mature segments such as networking software.

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Second District--New York

The Second District's economy has taken on a somewhat firmer tone since the last report, though a few areas remain sluggish. Cost pressures persist, but prices of final goods and services, aside from energy, remain stable. Labor markets continued to improve, on balance. Manufacturers indicate that activity remains on a moderate upward trajectory, and most contacts remain optimistic about the outlook for early 2005. In contrast, retailers report that sales were below plan in October, though a few note signs of a pickup in early November.

Commercial real estate markets have softened a bit since the last report, but housing markets remain robust. In New York City, tourism has shown signs of strengthening in recent weeks, reportedly buoyed by a pickup in both international and business travelers. Securities industry activity has picked up noticeably since the last report. Bankers report slight slowing in loan demand, unchanged credit standards and little change in delinquency rates.

Consumer Spending
Retail sales remained sluggish in October, with contacts reporting that same-store sales were little changed from a year earlier--changes ranged from a 4 percent drop to a 3 percent gain. While most report continued soft demand in early November, a few note that sales have picked up. In general, retailers indicate that sales of premium merchandise have been noticeably stronger than sales of lower priced lines; a number of contacts attribute this to lower-income households being disproportionately constrained by high energy prices. Also, unseasonably mild weather in recent weeks has held down sales of cold-weather merchandise. Despite the sluggish sales, most contacts report that inventories are generally in good shape. Retailers note that both prices and merchandise costs remain steady; looking ahead to 2005, apparel costs are expected to decline, as a result of the lifting of trade quotas on January 1, but prices of major appliances are expected to rise, reflecting the steep rise in the cost of steel. Most retailers are hiring about the same number of holiday season workers as last year, though two major chains plan to increase staffing from 2003 levels.

Consumer confidence was mixed in October. Based on Siena College's survey of New York State residents, confidence rose modestly, led by a strong pickup in upstate New York. However, the Conference Board's survey of Middle Atlantic state (NY, NJ, PA) residents shows confidence slipping in October.

Construction and Real Estate
Housing sector strength persisted in recent weeks. New Jersey homebuilders report continued strong demand, while prices, though still well ahead of last year, appear to be leveling off. In older urban areas of New Jersey, however, recent residential redevelopment has reportedly been met with strong demand, and prices have appreciated sharply. A contact in the Albany area reports increasingly robust market conditions, led by strong activity at the high end of the market.

The market for New York City co-ops and condos has been brisk in recent weeks: one contact reports that volume has been running noticeably higher than a year ago since Labor Day and that prices are up roughly 5 percent from a year ago; another contact reports a surge in sales at the very high end (multi-million dollar homes), and also a further pickup in sales of smaller (1-bedroom and studio) apartments. Manhattan's rental market has been mixed but generally stronger, led by the downtown area, where there is reported to be strong demand and a limited inventory.

Office markets have slackened somewhat since the last report. Manhattan's office market was steady to slightly softer in October, as brisk leasing activity was more than offset by an increased flow of available space onto the market. Midtown Manhattan's vacancy rate held steady and asking rents edged up again. However, downtown's vacancy rate jumped to its highest level this year, and asking rents dipped. Albany's office market also showed signs of softening, with vacancy rates up roughly a point from a year ago; also, a jump in prices of building materials is reportedly making it more costly to refit office space for new tenants.

Other Business Activity
A major New York City employment agency, specializing in mid-level office jobs, reports increased difficulty in finding qualified workers, along with continued moderate improvement in hiring activity, again led by the financial and legal industries, where current staffing levels are described as lean. However, there are reports of weakening employment in the insurance and music industries. Separately, a contact in the financial sector reports that the insurance industry retrenchment is partly due to the recent string of hurricanes in the Southeast. However, the securities industry has seen a pickup in business in the fourth quarter: increased flows into equity funds, as well as a pickup in new stock issuance and especially mergers and acquisitions; this has more than offset weakness in bond issuance. Wall Street firms are reported to be increasing staff, but little year-over-year increase is expected in bonuses, which are typically paid in January.

Manufacturers indicate steady, moderate growth in business activity, and continue to express widespread optimism about the outlook for the first half of 2005. The greatest concern expressed by manufacturers is increased competition from overseas; a few contacts also indicate that customers have recently been taking longer to pay their accounts. Among businesses more generally, rising energy prices appear to be the top concern. Purchasing managers in the Buffalo and New York City areas similarly report moderate improvement in activity, and fairly widespread increases in commodity prices.

Tourism has shown increased signs of strength in New York City. Airports report a strong increase in international arrivals, compared with 2003. There are also signs of a rebound in business travel. Manhattan hotels report that both occupancy rates and room rates were running well ahead of a year earlier in October, which is typically the top month for conferences and business travel. Moreover, bookings for most of December and next January are reported to be robust, with fewer hotels offering discounts. An industry contact projects that room rates will increase 12 percent in 2005, following a 9-10 percent rise in 2004. Attendance and revenues at Broadway theaters showed signs of rebounding in mid-November, after falling behind comparable 2003 levels in October and early November.

Financial Developments
Small to medium-sized banks in the Second District report somewhat reduced demand for loans. Declines in residential mortgages and consumer loans were a bit more pronounced than is typical at this time of year. Demand for commercial credit was relatively stable, across both the commercial real estate and commercial and industrial categories. Decreased refinancing activity was reported by two-thirds of bankers, with fewer than 10 percent of respondents reporting increases. Bankers report no change in credit standards. Both lending and deposit rates rose across the board. Finally, bankers indicate virtually no change in delinquency rates across all loan categories.

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Third District--Philadelphia

Business conditions in the Third District improved moderately in November. Manufacturers reported increases in orders and shipments during the month. Retailers indicated that sales of general merchandise rose in November compared with October and with November of last year. Auto sales have been steady in recent weeks. Banks and other lending institutions reported that overall lending continued on an upward trend, although some noted that residential mortgage refinancing activity had decreased. Sales of new and existing homes have been steady. Commercial real estate vacancy rates have shown little change, but rents continued to decline.

Contacts in the Third District business community generally expect economic activity in the region to expand at its current pace through the winter. Manufacturers anticipate increases in shipments and orders during the next six months. Retailers expect sales for the Christmas shopping season this year to exceed last year's by a moderate amount. Auto dealers expect sales to be level through December. Bankers believe overall lending will remain on the rise, although they anticipate a slowing in growth of residential mortgage activity. Real estate agents and home builders expect home sales to remain close to the current pace. Contacts in commercial real estate expect the demand for office and industrial space to rise gradually during 2005.

Manufacturing
Manufacturing activity in the Third District increased moderately in November. Around four out of ten of the manufacturing firms surveyed during the month posted higher shipments and orders compared with the prior month, and less than two in ten reported decreases. Order backlogs at area plants were steady from October to November, but delivery times edged down. Business conditions varied among the major manufacturing sectors in the region. Growing demand was generally reported by makers of electrical machinery, measuring and controlling instruments, chemicals, and primary metals. Some slowing in demand was reported by makers of furniture, transportation equipment, and paper products.

The region's manufacturers generally expect further gains in business activity. Around six out of ten of the firms surveyed in November expect their shipments and orders to increase during the next six months, and less than one in ten expect decreases. On balance, area manufacturing firms are scheduling increases in capital spending and planning to add employees. Despite mixed reports on current conditions among the region's major manufacturing sectors, the outlook is positive in almost all of them.

Third District manufacturers continued to report rising prices, with about the same percentage of firms noting increases during November as in October. Area manufacturers expect further increases in input and output prices during the next six months. They also anticipate sharp increases in the cost of employee health benefits for 2005.

Retail
Retail sales of general merchandise increased moderately in November compared with October and with November of last year. Sales gains were noted across most store types and merchandise lines, although a few merchants reported that sales of men's apparel have been slow. Store executives expect sales to rise gradually as Christmas approaches. Most of those contacted for this report expect Christmas holiday sales this year to exceed last year's by around 4 percent, in current dollars. They also expect a substantial portion of the season's sales will be posted in January as shoppers use gift cards received over the holidays. Store executives generally indicated that temporary hiring for the season is about in line with last year amid continuing efforts to limit personnel expense year-round.

Auto dealers in the region reported roughly steady sales in November at around the same rate as in October. Manufacturers have stepped up promotions, and dealers expect that a year-end marketing push will maintain the sales rate close to its current pace through December.

Finance
Outstanding loan volume at Third District banks rose in November, according to banks contacted for this report. Commercial and industrial loans have been growing, with much of the new borrowing being done by middle market firms in the business and professional services sector. Bankers noted that revenues of their business borrowers have been improving and the credit quality of their business loans has been good. Competition for business loans among banks and nonbank lenders continues to be strong. Consumer credit has increased moderately, and some banks noted recent gains in home equity lending. Banks generally indicated that residential real estate lending expanded in November, although refinancing activity eased. Bankers in the District expect overall lending to rise in the months ahead. They expect further gains in business and consumer lending at or above the current growth rate, but they anticipate a slowing in growth of residential real estate lending.

Investment companies and stock brokers in the region have been receiving strong cash inflows. Some indicated that growth in business has been steady since midyear, and others said the increase has been recent. In response to the expanded activity, some securities firms are raising staffing levels.

Real Estate and Construction
Commercial real estate firms in the Third District reported that vacancy rates in the region's office markets have been roughly steady in the past few months. However, effective rents have declined as landlords compete for new tenants and lease renewals. Commercial real estate firms expect office vacancy rates to move down in the year ahead in most parts of the region. They expect a turn toward better balance between supply and demand in suburban markets, but not in the Philadelphia central business district, where new construction spurred by local tax abatements has added significantly to the amount of office space available. Industrial building vacancy rates have changed little in recent months, but rents have declined in most parts of the region. However, there are some areas of strong demand, and construction of industrial and multi-use buildings has picked up somewhat in these areas.

Residential real estate agents indicated that sales have been roughly steady in recent weeks. Homebuilders also reported steady sales. Price appreciation continues for existing homes, and builders in many parts of the region have been raising prices for new homes. Real estate agents in some areas said there has been a slight increase in the amount of time houses are on the market before being sold, but most residential real estate contacts indicated that demand continues to be strong. Both builders and real estate agents expect the pace of sales to remain roughly steady. They anticipate rising employment and incomes to cushion the effect of potential increases in mortgage interest rates as long as the upturn in rates does not exceed one or two percentage points.

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Fourth District--Cleveland

For the six-week period through the middle of November, economic activity appeared to expand little in the Fourth District. Production levels at the District's durable and nondurable goods manufacturers remained flat, as in August and September. Sales at the District's retailers also remained largely unchanged throughout this period, conforming to the pattern of reports since late spring. Residential construction continued to slow, while seasonal declines in demand weakened some of the momentum that nonresidential builders had been reporting. District banks reported steady loan demand among their commercial and consumer clients. Finally, shipping firms continued to report robust demand.

There were some signs that input costs began to stabilize for manufacturers, and retail price pressures remained limited. While hiring still seemed to be modest among many business contacts, staffing services companies are optimistic about their prospects for the first quarter. Contacts at staffing services companies also reported an increase in the number of employed workers interested in switching to a new job.

Manufacturing
Most of the District's durable goods producers continued to see steady levels of production in October and through the middle of November. However, year-over-year comparisons were less favorable for firms through this period than in the recent past: Almost half reported less production than at this time last year. Some of the slowing can be traced to auto producers' production cuts. Domestic steel shipments also slowed somewhat, but they are still substantially higher than at this time a year ago. Contacts attributed the slowing shipments largely to seasonal changes in demand. However, increases in steel inventories and imports are also likely having an effect. Nondurable goods producers described production levels as steady in recent weeks, as well as relative to this time last year. Nevertheless, most expect weaker activity through the next several months. By contrast, expectations among durable goods producers are almost evenly split between those anticipating more production and those anticipating less.

As in the most recent report, roughly half of the respondents from durable goods manufacturers reported having higher inventories than desired. By contrast, most nondurable goods producers reported that their inventories were not above acceptable levels. In general, durable and nondurable goods producers are planning little hiring and few increases in capital outlays over the near term.

For the first time in months, cost pressures appeared to moderate for many manufacturers through the six weeks ending in mid-November. In fact, several firms reported that their input costs were flat throughout this period. Lower prices for petroleum-based products and steel appeared to account for much of the change. Nevertheless, manufacturers' materials costs remain higher than at this time last year, and, accordingly, firms continue to attempt to raise their prices--many successfully so--to recover the increases in input costs.

Retail Sales
The economic environment for the District's retailers remained largely unchanged in recent weeks. Most contacts continued to characterize sales as flat, with business conditions little changed since the spring. On a year-over-year basis, specialty stores and discounters reported a slight increase in sales, while department stores saw sales decline. Auto dealers reported falling sales for the six weeks through the middle of November. Finally, it was reported that cosmetics and other personal care products, home appliances, and certain apparel categories sold well.

Some contacts had expected sales to strengthen following the presidential election, but sales through the first half of November don't appear appreciably better than before. Accordingly, firms are cautious in their forecasts for the upcoming holiday selling season, anticipating, at most, only slightly better sales than at this time a year ago. Most retailers reported that their inventories were well-managed and about the same as a year ago, though auto dealers generally had higher inventory levels than desired.

Automobile dealerships continued to offer an array of sometimes substantial incentives. One newly introduced incentive allows buyers to lock in current interest rates on a subsequent purchase for a five-year period. Prices for used cars also continued to fall. For other retailers, reports regarding changes in prices were mixed. For firms that attempted to increase some product prices, these changes were reportedly resisted by consumers. Regarding hiring, seasonal workforce additions were expected to be about the same as at this time a year ago; plans for permanent staff additions are still few.

Construction

The pace of residential construction continued to weaken slightly throughout the District, even after accounting for the typical seasonal slowing. Reports of declines in activity were particularly prominent in the Cincinnati area. Building also appeared to be down for most firms on a year-over-year basis. Nevertheless, nearly half of the firms contacted continued to expect their sales in 2004 to ultimately surpass those seen in 2003. Contractors' costs for most materials declined throughout the fall, but often are still above their levels from a year ago. Increases in cement and concrete prices have also been reported. Finally, firms that were expanding planned to continue to add to their staffs.

After recent reports indicated better business conditions for nonresidential builders, activity appeared to slow in the six weeks through the middle of November. However, many contacts attributed this to a normal seasonal slowing. While many firms don't anticipate much more activity through the remainder of this year, there is optimism about stronger activity in 2005. Materials costs were flat for most firms in recent weeks, though higher than at this time last year. No nonresidential builders reported plans to hire, but several indicated that they may shed some workers in the weeks ahead.

Banking

Most institutions in the District reported moderate increases in deposit growth through the six weeks ending in mid-November. Throughout this period, District banks also characterized their commercial clients' demand for credit as steady. There were some isolated indications that commercial clients were seeking funding for expansions, as some bankers suggested that business confidence had improved in recent weeks. Lending to consumer clients was also characterized as steady, though mortgage activity appeared to vary by region. Finally, credit quality continued to be good at most institutions in the District.

Trucking and Shipping

Demand for trucking and shipping services remained robust in October and through the middle of November. As has been the case in recent reports, demand continued to come from an array of sectors, with demand from retailers especially strong in advance of the holiday selling season. Shipping firms' fuel surcharges continued to insulate them from increases in fuel expenses. Many shippers are also beginning to increase their base rates. As firms attempted to expand capacity, they continued to report trouble hiring drivers. Wage rates have risen as a result, and one firm reported attempting to attract drivers by offering benefits such as routes closer to a prospective hire's home. Capital spending by shipping firms continued to be strong through the middle of November.

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Fifth District--Richmond

The Fifth District economy expanded at a moderate pace in late October through mid November though there were increasing signs that retail sales and manufacturing were losing momentum. District services businesses generally reported solid revenue growth since our last report but retailers said sales barely increased and employment in the sector was flat. Manufacturers said both shipments and new orders expanded somewhat more slowly in October and softened in early November. Housing markets continued to show healthy growth since our last report, although the pace of expansion was less robust than in late summer. In contrast, commercial real estate conditions brightened considerably from the lackluster pace seen earlier in the year. District manufacturers continued to face higher prices for some raw materials, notably oil, gas, and steel, and contacts said that they were not able to fully pass along the higher costs. Business contacts generally reported that prices for their products and services continued to rise only modestly. In agriculture, heavy rainfall hampered harvesting activity, but contacts expected near-record corn and soybean crops.

Services
Services firms in the District continued to report increased customer demand in recent weeks, though the pace of growth slackened somewhat. A contact at a North Carolina freight company said business was steady despite their charging higher freight rates to offset increased gasoline costs. A physical therapist in Goldsboro, N.C., noted that revenues at her organization had declined in part because of a continued slow economy in that area of North Carolina. But some contacts were relatively upbeat. A financial services business in central Virginia told us clients became more optimistic as the uncertainty surrounding the timely conclusion of the U.S. presidential election was removed. In labor markets services employment expanded at a slower pace.

Retail
Reports from District retailers indicated that sales growth softened in October and early November and contacts were less optimistic about holiday revenues. A furniture store in central North Carolina and a lumber retailer in Columbia, S.C., reported slower growth in their sales since our last report. Automobile dealerships in the District generally reported little change in sales although a dealer in Norfolk, Va., and a dealer in Orangeburg, S.C., reported that sales declined in early November. On a brighter note, a manager at a large North Carolina bookstore said holiday purchases began about a week earlier than usual while a contact at a department store in the lowlands of South Carolina said current-store sales goals had been "easily met."

Manufacturing
Growth slowed in the District's manufacturing sector in October and in early-to-mid November. Factory shipments and new orders expanded at a somewhat slower pace and manufacturing employment was flat. A number of firms in the District suggested that sales were little changed from previous months; a packaging manufacturer in North Carolina said that their business was holding its own though a furniture manufacturer in North Carolina was a little more upbeat, noting that new orders were "coming in on a more steady basis." But a plastics manufacturer in North Carolina noted a "dip" in manufacturing activity and a

textile producer there said business was "very seasonally slow." Prices for raw materials rose at a quicker pace in recent weeks although continued competition from abroad led many District manufacturers to hold the line on prices. An electric equipment manufacturer in Greenville, S.C., reported moderately higher prices for raw materials, noting that rapid economic development in China had spurred sharply higher demand for steel and the types of metal castings and machined parts used in his business.

Finance
District loan officers reported a modest uptick in loan demand from late October through mid November. Lenders said that demand for commercial loans picked up after the presidential election in November as uncertainty regarding the election outcome dissipated. Bankers in Charlottesville, Va., told us that borrowing to finance construction and real estate purchases strengthened considerably. Residential mortgage lending was stable in most areas of the District. A Charleston, W.V., banker reported fairly strong mortgage demand for new home purchases as the housing market there "rocked right along," but the contact said that mortgage refinancing activity remained light. District bankers reported little change in credit standards for borrowers.

Real Estate
District real estate agents reported generally strong housing markets in recent weeks, but said that growth in home sales continued to tail off. An agent in Asheville, N.C., told us his office set a record for home sales in October and a real estate analyst in the Carolinas noted that the resort and retirement markets remained strong. A contact in Odenton, Md., however, told us that homes in the low to middle-price range were staying on the market a "tad" longer. An agent in Fairfax County, Va., also reported slower growth in home sales but said that homes priced below $400 thousand still received multiple offers. Confirming strength in the Northern Virginia market, a real estate agent in Vienna, Va., said housing markets remained "hot" in all price ranges. On the price front, District homebuilders reported that increases in materials costs had slowed in recent weeks.

Commercial real estate conditions brightened throughout the Fifth District during the past six weeks. Agents stated that the recent improvement had been driven primarily by increased leasing of new retail and office space--much of it by expanding small businesses. "The calls we are getting are from people who want to take their businesses out of their homes and other small spaces and move to somewhere they can grow," noted a contact in Raleigh, N.C. Contacts also noticed "some early signals" of a recovery in industrial leasing. Realtors in Charleston, W.V., Charlotte and Greensboro, N.C., Columbia, S.C., and Washington, D.C., mentioned a rise in industrial activity. The leasing of smaller spaces called "warehouse condos" was particularly strong. Adding to the recent upbeat tone, vacancies across all sectors edged lower and rents held steady. Despite firmer demand, office and industrial construction remained stagnant while retail construction maintained its steady pace.

Tourism
District tourist activity was mixed since our last report. Contacts on the Outer Banks of North Carolina and in Virginia Beach, Va., reported little change in tourism in November. A contact in Virginia Beach said that corporate travel budgets appeared to have tightened and that customers at her hotel were increasingly making last minute reservations as a result. In contrast, a contact in Myrtle Beach, S.C., reported somewhat stronger business and indicated that tourist spending continued to grow. Reports from mountain areas were also mixed. A manager at a resort in western Virginia said that holiday bookings were above year-ago

levels, while a contact in West Virginia said bookings were under pressure from higher gasoline prices which kept travelers closer to home.

Temporary Employment
Contacts at employment agencies reported firmer demand for temporary employees in recent weeks. A manager in Raleigh, N.C., said that continued economic recovery, a pick up in jobs creation, and "relief that the political process was done for this year" all led to stronger demand for temporary workers. He expected his temporary, temp-to-hire, and direct-placement business to continue to prosper. An agent in Morrisville, N.C., told us that increased marketing efforts were paying off and that placement of temporary workers was picking up there.

Agriculture
Heavy precipitation coupled with cooler weather in November delayed field work and hindered harvesting activity in some areas of the District. Cotton and soybean harvesting in South Carolina and in Virginia in particular were slowed by rainfall. Despite the interruptions, analysts expected near-record yields of corn and soybeans. Small grain crops were reported to be in mostly good condition in Maryland, South Carolina and West Virginia. In addition, the harvesting of apples and sweet potatoes was nearing completion in South Carolina. Christmas tree producers in North Carolina reported that they were in full swing for the upcoming holiday season.

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Sixth District--Atlanta

Business contacts reported that the pace of economic activity increased in October and early November. Hurricane-related disruptions have subsided outside of the worst affected areas, and rebuilding efforts have boosted activity in several building related industries. Passenger vehicle sales continued to lag, whereas other retailers reported modest improvements in sales and most expressed cautious optimism toward the holiday season. By most accounts, housing markets remained strong and the nonresidential segment displayed small improvements. Manufacturing reports were quite positive, and the demand for transportation services was strong. However, several Gulf of Mexico oil and gas pipelines remained off-line because of storm damage. The tourism and hospitality sector reports were mixed, varying by their location relative to the path of the hurricanes. The demand for construction workers was very strong in the storm-affected areas, and additional hiring was noted in manufacturing industries supplying building materials. Higher prices were reported for building materials, energy, and some food produce, the latter pushed up because of storm damage to several Florida crops.

Consumer Spending
Most District retailers indicated that October and early November sales rose modestly compared with last year and were in-line with expectations. Most merchants were cautiously optimistic heading into the holiday season. The strongest sales reports came from specialty non-discount stores. Retailers in the worst storm affected areas reported poor sales outside of building supplies and groceries. Automobile sales continued to be lackluster and several industry contacts reported lower than expected sales of some SUV segments.

Real Estate

Contacts reported that District housing markets remained generally strong in October and early November. However, existing home sales were described as having moderated in some markets outside of Florida. Recovery from storm damage continued to dominate building activity in parts of Florida and in South Alabama. Building supplies and labor remained scarce in these areas. Some Realtors in Florida reported strong demand for housing even in some of the hurricane-damaged areas. Nonresidential market contacts continued to report modest improvements in vacancy rates, whereas nonresidential construction remained muted.

Manufacturing and Transportation
Reports from the factory sector were mostly positive, boosted by increased regional demand for building materials. Several contacts reported longer work hours and additional hiring at building material suppliers. In some cases, plants were operating at capacity. Defense and aerospace industry contacts reported steady activity, while plans for additional auto parts manufacturing plants were announced. Reports noted that most storm-related disruptions to manufacturing production were only minor. However, oil refineries remained hampered by supply problems associated with offshore pipeline damage. District transportation contacts continued to report strong demand for freight services through October and early November.

Tourism and Business Travel
Reports from the District's tourism and hospitality industry indicated steady recovery after the recent hurricanes. Contacts were guardedly optimistic about the 2005 season, with seasonal winter bookings strong in parts of Florida. For instance, some reports noted that advance bookings for larger Miami Beach and Palm Beach resorts were stronger than last year. Hurricane-damaged facilities were under repair and in some cases repair work is expected to take several months to complete. Florida tourism officials expressed concern about possible declines in visitor numbers next summer if the predicted number of hurricanes remains elevated.

Financial
Banking sector reports were mostly positive in October and early November, with several banks reporting strong income growth and good asset quality. Consumer loan demand continued to be strong and delinquencies remained at low levels in most areas. However, reports of home foreclosures increased in locations, such as some suburbs of Atlanta. Commercial loan demand displayed a modest improvement, but remained at low levels overall.

Employment and Prices
Reports from labor markets were positive in October and early November. Most displaced workers in Florida have reportedly returned to their previous employer or have found new positions since the hurricanes. The surge in hiring for clean-up jobs has slowed, but construction workers and especially roofers were in high demand. Construction labor shortages reportedly caused wage costs to increase. In addition, the influx of construction workers was said to be depleting the construction workforce in some non-affected areas of the District.

Prices for building materials and energy remained at high levels, according to most reports. Building costs continued to rise for wood, steel, concrete, gypsum board, shingles, and shutters. Price increases for reinforced and structural steel were also reported, in part because of increased overseas demand. Delivery surcharges by building supply businesses and transporters were widely reported.

Agriculture
The recent rains sharply reduced harvest time and fieldwork for District farmers. The hurricanes seriously affected production levels for several Florida crops. The outlook for Florida's citrus growers was made more uncertain because the hurricane caused spreading of the citrus canker disease. Prices for tomatoes, peppers and other key Florida crops were reportedly rising because of simultaneous crop damage in other parts of the country. Reports indicated that this year's cotton crop might be larger than expected.

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Seventh District--Chicago

The Seventh District economy continued to expand at a moderate pace from late October through mid-November. Consumer spending remained relatively soft, but business spending continued to pick up. Construction and real estate activity was largely the same as at the time of our last report. Manufacturing continued to be robust, with contacts reporting further gains in production, new orders, and backlogs. Bankers said that demand increased slightly for both household and business loans. High input costs persisted, but retail price pressures were largely subdued. Agriculture prospects remained strong, with bumper corn and soybean harvests.

Consumer spending
Consumer spending remained relatively soft from late October through mid-November. Retailers generally indicated that sales nationwide were coming in at the lower end of their expectations, with the Midwest softer than other regions. However, some said that store traffic and sales of seasonal merchandise picked up as temperatures cooled. Despite stronger job growth and higher consumer confidence, merchants' expectations for the holiday shopping season remained somewhat cautious. Retail inventories were said to be in line with sales plans. Many restaurants, from quick-casual to high-end, noted stronger sales during the reporting period. One property manager noted that restaurants were benefiting from a general upswing in shopping center traffic. District auto dealers said that light vehicle sales were relatively soft in early November, which was in line with expectations, and that inventories were slightly high. Once again, tourism and related spending was reported to be a bit above year-earlier levels.

Business spending
Business spending continued to increase and more firms appeared to be hiring. Many businesses reportedly boosted outlays for production machinery, office equipment, and computers. Still, contacts again suggested that a large portion of capital outlays was devoted to replacing outdated or worn equipment and/or cost-saving technologies, rather than expanding productive capacity. Business travel and advertising continued to rise modestly. With regard to hiring, one large temporary help firm indicated that new orders increased significantly in October and early November after falling off in September. This firm, and others, noted that demand for temporary workers was strong across industry and occupational categories. In addition, temp-to-permanent placement fees continued to rise. Outside of temporary help firms, reports of additional permanent hiring became more frequent, particularly from manufacturers.

Construction/real estate

On balance, there was little discernible change in real estate and construction activity in recent months, as some slowing in housing markets was offset by a slight strengthening on the nonresidential side. Though reports were mixed, Realtors and builders generally indicated that housing markets remained strong even though sales were a little slower than earlier in the year. However, a contact with one builders' association suggested that most homebuilders were expecting mortgage interest rates to rise next year, heightening uncertainty among many of them. Commercial construction and real estate activity continued to increase slightly. Despite recent gains in office markets, contacts still described it as "a tenants' market," with leases containing higher-than-normal improvement allowances and rent abatements.

Manufacturing

Manufacturing activity continued to increase. Producers of heavy equipment (construction, agricultural, and mining) again reported considerable ongoing strength in production, new orders, and backlogs. One contact suggested that tax incentives set to expire at the end of the year may be pulling ahead orders for heavy equipment. New orders for heavy trucks were "at extremely strong levels" and production was constrained by shortages of engines and other parts. Machine tool makers said that new orders increased further from very high levels. Shipments of cement and gypsum wallboard continued to rise, and industry contacts said that some firms had added capacity, or planned future additions, to keep up with demand. Some specialty steel products were said to be in short supply. More generally, however, demand for domestically produced steel eased somewhat recently, due in large part to an increase in imports and softening demand from the auto industry. Light vehicle sales nationwide were said to be "tepid" in early November, and inventories were rising again. As a result, one producer indicated that fourth-quarter production schedules probably will be cut.

Banking/finance

On balance, lending activity increased slightly from our last report. On the household side, some lenders reported an uptick in mortgage loan applications as long-term interest rates remained historically low. There were no changes reported on standards and terms for household loans, and credit quality continued to improve. Demand for business loans increased slightly. One large bank reported that its October increase in commercial loan volumes was one of the strongest this year. In addition, commercial credit line usage increased. Still, overall lending remained well below expectations. There were no reported changes on standards and terms for business loans, and lenders said that credit quality was good and largely unchanged.

Prices/costs

Reports of higher input costs persisted and wages continued to increase at a slightly faster pace, but retail price pressures remained largely subdued. Contacts reported that prices for some materials were decreasing. Notably, steel prices were reported to have declined from relatively high levels, and lumber prices also fell in recent months, alleviating cost pressures on homebuilders. Still, many materials prices remained elevated. The number of firms that were able to pass higher input costs along to their business customers continued to rise, although the price increases appeared modest. Some restaurants were said to be raising menu prices to offset higher food costs. Still, price increases for final consumer goods remained largely contained.

Agriculture

Harvest was nearing completion in Illinois, Indiana, and Iowa, but still lagged in Michigan and Wisconsin, especially for corn. Corn and soybean harvests for most District states were likely to approach or set record highs, and concerns about storage of the bumper crops persisted. Precipitation replenished depleted soil moisture levels in parts of the District, but also delayed field work and boosted the moisture content of grain stored outside. Fertilizer prices have increased substantially which, along with higher fuel costs, have tempered gains in farm income, even as government payments provided a boost. Soybean rust, recently discovered in the South, has become a major concern in the District, with planting decisions likely to heavily favor corn over soybeans next year. Livestock producers have benefited from lower feed costs and continued to make a profit.

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Eighth District--St. Louis

Business activity in the Eighth District expanded modestly since our previous survey. In manufacturing, a majority of contacts reported plans to open plants and hire additional workers. Most contacts in the services sector continued to report improved economic activity. Retail and auto sales declined in September and October with respect to year-earlier levels. Residential real estate markets continued to do well, while commercial real estate markets remained soft. Overall lending conditions at a sample of District banks were mostly unchanged in the three months ending in October.

Consumer Spending
Contacts reported that retail sales in September and October were down, on average, over year-earlier levels. While 26 percent of the retailers surveyed noted that sales levels met their expectations, 70 percent reported that sales were below what they had anticipated and 4 percent reported sales above expectations. Women's fashion accessories, jewelry, cosmetics, shoes, athletic apparel, and computers were all strong sellers, while furniture, big appliances, luxury and specialty items, and toys were moving more slowly. Nearly 80 percent of contacts noted that inventories were at desired levels. Retailers appear generally optimistic about sales during the upcoming holiday season, and more than 80 percent of contacts expect that sales will increase over 2003 levels.

Car dealers in the District reported that, compared with last year, sales in September and October were slightly down, on average. About 64 percent of the car dealers surveyed reported decreases in sales, while another 24 percent reported increases. About one third of the car dealers noted that used car sales had increased relative to new car sales, and about 32 percent reported an increase in low-end vehicle sales relative to high-end vehicle sales. About 38 percent of the contacts surveyed reported increased use of rebates, while 43 percent reported no change. Nearly all of the respondents reported no change in the acceptance rates of finance applications. About 60 percent of the car dealers surveyed reported that their inventories were at desired levels, while 32 percent reported that their inventories were too high, with a few contacts reporting excess of sport utility vehicles. A slight majority of the car dealers surveyed expect increased sales over 2003 for the remainder of the year.

Manufacturing and Other Business Activity
Manufacturing has shown modest improvement since our previous report, with a majority of firms reporting plans to open plants and expand operations and fewer firms reporting plans to close plants and lay off workers. Several firms in the aerospace, food manufacturing, auto parts, electrical equipment, manufactured home, and fabricated metal product industries announced plans to open new plants, which will likely result in more than 750 new jobs by

2006. A firm in the paper manufacturing industry reported plans to relocate its headquarters to the District and add several hundred new jobs. Firms in the household appliance, auto parts, and fabricated metal products industries reported plans to expand existing plants and hire as many as 640 workers. In contrast, firms in the plumbing fixture, nonmetallic mineral, and furniture industries reported plans to close plants, displacing as many as 500 workers. Other firms in the auto parts and household appliance industries reported plans to lay off approximately 310 workers.

Most contacts in the services sector continued to report improved economic activity. Firms in the freight transportation, recreation, financial and insurance services, traveler accommodation, and health services industries reported openings, expansions, and increases in hiring, likely resulting in more than 1,020 new jobs. A firm in the freight transportation industry plans to hire as many as 425 temporary workers to meet increased holiday demand. In contrast, firms in the food services and air transportation industries reported facility closures and workforce reductions. A firm in the utility industry plans to reduce its workforce with a voluntary termination package offered to as many as 950 workers.

Real Estate and Construction

Residential markets continued to do well in most of the Eighth District in September. In the greater Louisville area, September year-to-date sales increased by 2.1 percent compared with the same period in 2003. The increase in year-to-date sales was 4.7 percent for the greater St. Louis area and 15.8 percent for Memphis. Sales were still strong in Little Rock and the Tupelo region. Year-to-date single-family housing permits increased in most of the District's metropolitan areas compared with the same period last year. September year-to-date permits in St. Louis City and County grew by 19.6 percent compared with the same period in 2003. Residential construction has been flat in Jackson, Tennessee but remained steady in southern Indiana and northeast Arkansas.

Commercial real estate markets continued to lag behind residential markets in most of the District. The third-quarter industrial vacancy rate in the greater Louisville area remained virtually unchanged at 18.2 percent compared with the previous quarter. The overall office vacancy rate in Louisville's central business district rose to 21 percent in the third quarter from 20.4 percent in the previous quarter. Contacts reported that office leasing was very slow in downtown Little Rock. There was some improvement in commercial construction in most of the District. Construction activity has been picking up in Little Rock, and it has remained steady in southern Indiana.

Banking and Finance

A survey of senior loan officers at a sample of District banks indicated 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 unchanged for both large and small firms. Similarly, credit standards for commercial real estate, residential mortgage, and consumer loans remained basically unchanged. The demand for commercial real estate loans showed some indication of being moderately stronger. During the same period, the demand for residential mortgage loans varied from moderately weaker to moderately stronger and the demand for consumer loans was basically unchanged.

Agriculture and Natural Resources

Recent rains in the District have improved pasture conditions and soil moisture levels. The corn harvest is now virtually complete in all District states. The soybean harvest is mostly complete in Illinois, Indiana, and Mississippi, but it is behind its average pace in the remaining District states. The cotton harvest is running behind its average pace because of wet conditions, and the rice harvest is complete. November yield and total production estimates for corn, soybeans, rice, and cotton surpass those of last year. With the exception of Illinois and Indiana, winter wheat planting in the District states is far behind because of delays caused by wet weather conditions.

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Ninth District--Minneapolis

The Ninth District experienced broad-based growth from October through mid-November. Signs of growth were noted in most areas: consumer spending, manufacturing, construction, energy, mining and agriculture. Tourism was about even with a year ago. Labor markets tightened and wage increases were modest. Price increases appeared in a number of sectors including manufacturing, construction and energy.

Consumer Spending and Tourism
Overall consumer spending increased from a year ago. A major Minneapolis-based retailer reported same-store sales up 6 percent in October compared with a year ago, while a Minnesota-based women's apparel chain reported October same-store sales up 7 percent compared with last year. A mall manager in Montana reported sales up about 3 percent compared with a year ago; foot traffic picked up in the first half of November. A Minneapolis area mall manager expects a 4 percent to 5 percent increase in holiday sales compared with last year. A South Dakota bank director said most businesses are optimistic for holiday sales.

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

Autumn tourism activity was about even with a year ago. The number of visitors at tourism destinations in the Black Hills of South Dakota during September and October was down slightly compared with a year ago; however, revenue was up slightly. Fall outdoor activities were strong in northwestern Wisconsin, although retail sales slowed somewhat, according to a chamber of commerce representative.

Manufacturing
Manufacturing activity increased. Based on preliminary results from the Minneapolis Fed's annual business poll (November), respondents from the manufacturing sector expect strong growth in company sales, employment and investment in 2005. In addition, an October survey of purchasing managers by Creighton University (Omaha, Neb.) indicated strong manufacturing activity in the Dakotas and Minnesota. A cabinet producer in Minnesota plans to add a warehouse and a finishing facility. In South Dakota, a snowplow maker expanded production. A large North Dakota bakery plans to add $2 million in processing equipment. In northwestern Wisconsin, a food processor is planning to add a production facility.

Construction and Real Estate
Signs of growth were noted in commercial construction and real estate. In the Minneapolis-St. Paul area, a large commercial real estate firm recently reported increased absorption and decreased vacancy rates for office space. The medical office market is heating up. The industrial real estate market continues to improve throughout the district. Construction began on a $42 million beef processing plant in South Dakota. Contracts

awarded for large construction projects in Minnesota and the Dakotas increased 17 percent for the three-month period ended in September compared with a year ago.

Residential markets continued at a strong pace. A mortgage broker in Fargo-Moorhead reported she expects another record year. Despite some small corrections in the Minneapolis-St. Paul area--longer market times, higher inventory and fewer closings--sales continue at a strong pace. A Minnesota bank director noted residential construction was strong, with a mixed outlook. However, realtors in the Duluth-Superior area noted movements toward a buyer's market.

Energy and Mining

Activity in the energy sectors remained strong, and mining activity increased. Mid-November district oil production increased from early October. A Montana gas exploration and pipeline company is having trouble finding qualified workers, and another gas exploration company plans to increase the number of wells drilled. Iron ore mines continued to produce at capacity. In addition, capital expansion is under way. In Montana, a bank director noted that mining companies are investing in capital equipment and are becoming more aggressive in production and expansion.

Agriculture

Agriculture activity increased. "Steadily going up," wrote a Montana lender responding to the Minneapolis Fed's third quarter (October) agricultural credit conditions survey. Lenders expected that overall agricultural income would rise in the fourth quarter. The U.S. Department of Agriculture increased estimates of the already high forecast for the corn harvest, and the soybean harvest is expected to be above last year's levels. The Montana winter wheat crop has emerged at a slightly faster pace than the five-year average. Meanwhile, the USDA forecasts slight decreases in prices for corn and soybeans and a slight increase in wheat prices.

Employment, Wages and Prices

Labor market conditions showed some signs of tightening since the last report. A major Minnesota-based airline may recall as many as 400 pilots next year due to attrition and modest growth. A North Dakota window plant recently announced the addition of 40 new jobs. Retail hiring is generally expected to be above year-ago levels at district retail stores. Montana and South Dakota business contacts mentioned some difficulty in finding qualified workers, especially skilled workers and in hiring for night and weekend shifts. Just over 44 percent of preliminary respondents to the Minneapolis Fed's business poll expect to increase employment at their companies; 49 percent expect to keep staffing levels the same. A year ago the poll responses were 33 percent and 52 percent, respectively.

In contrast, a Minnesota-based company that makes recordable tape, CD and DVD products plans to cut 250 jobs companywide, with many of the layoffs taking place at its headquarters. The closing of a Minnesota call center, due to company consolidation, will affect 70 jobs.

Increases in wages and salaries were modest. Bank directors in Montana mentioned moderate increases in wages and salaries in several parts of the state. Wage and salary growth in 2005 is expected to be subdued; 78 percent of respondents to the Minneapolis Fed's business poll expect wage increases to range from 2 percent to 3 percent.

Price increases appeared in several sectors, including manufacturing, construction and energy. Preliminary results of the Minneapolis Fed's business poll indicate some higher expectations for prices, as 48 percent of respondents expect to increase prices for their products in 2005, up from 31 percent in last year's poll. Several construction and manufacturing materials prices increased, such as aluminum, concrete, copper, diesel fuel and steel products. Softwood prices decreased since the last report, but were still about 15 percent higher than a year ago. Pork prices were up about 15 percent from last year.

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Tenth District--Kansas City

The Tenth District economy expanded moderately in late October and early November. Most retailers posted additional sales gains, factory activity increased further, and labor markets showed continued improvement. Housing activity remained solid, and the energy and agriculture sectors were still strong. On the negative side, commercial real estate markets generally remained weak. Wage pressures were still modest, but some price pressures persisted for manufacturers and builders.

Consumer Spending
Consumer spending in the district increased further in late October and early November. Most store and mall managers reported solid year-over-year sales gains, and almost no stores reported declines compared with last year. Sales of luxury items, such as jewelry and designer clothing, were reported as especially strong at several stores. Almost all managers were optimistic about holiday sales. Most managers were expanding inventories at least as much as a year ago, and those that were not generally attributed their leaner inventories to their improved ability to adjust stock levels quickly. Motor vehicle sales in the district were flat for the second survey in a row and still slightly lower than a year ago in most areas. Most auto dealers contacted were satisfied with inventory levels. However, a number of dealerships still had excess vehicles, especially in Denver and Kansas City. Most dealers anticipate a pickup in sales in coming months, due to reduced consumer uncertainty following the election and quality improvements in new model year vehicles. Travel and tourism activity in the district was solid in late October and early November, as airport traffic and hotel occupancy rates remained above year-ago levels in most cities. Looking ahead, Rocky Mountain resorts reported solid increases in advance hotel bookings and ski pass sales from a year ago. They also expect an increase in international visitors this winter due to recent declines in the value of the dollar.

Manufacturing
District manufacturing activity expanded moderately in late October and early November. Manufacturers reported increased production and orders, though the increase in orders was not as strong as in past surveys. Firms continued to add employees at a rate similar to the previous survey. About half of plant managers reported some difficulties obtaining materials, especially petroleum-based materials, and they generally expect these problems to persist. Factories remained quite optimistic about future production, and many firms plan to continue to increase employment and capital spending at a moderate rate in coming months.

Real Estate and Construction
Housing activity remained solid in late October and early November, while commercial real estate activity was still weak. Overall, single-family housing starts in the district were flat compared with recent months, although starts were still high by historical standards. Construction was characterized as stronger for lower-priced homes than for higher-priced

homes in most areas. Most builders expect solid levels of construction to continue in the months ahead and generally expect few materials availability problems. According to realtors, home sales in most parts of the district continued to ease slightly from the high levels reached earlier in the year, and virtually all realtors noted at least some excess inventory of homes. Sales were reported as weakest for higher-priced homes. Most realtors expect home sales to remain solid in the months ahead. Home prices in most cities were reported to be up slightly from the previous survey and are expected to post continued modest increases heading forward. Mortgage lenders reported flat mortgage demand over the past month, with slightly stronger demand for refinancings than for home-purchase loans. Heading forward, lenders generally expect refinancings to slow somewhat but home-purchase loans to pick up slightly. Commercial real estate activity in the district was still weak but generally stable. Absorption rates were reported to be up modestly in some cities. However, because the supply of new space also increased somewhat, vacancy rates were largely unchanged. As in the previous survey, about half of the commercial realtors contacted expect some improvement in vacancy rates over the next six months.

Banking

Bankers report that both loans and deposits held steady since the last survey, leaving loan-deposit ratios unchanged. Demand rose for commercial and industrial loans and commercial real estate loans but fell for consumer loans and home equity loans. Demand for home mortgage loans was unchanged. On the deposit side, all major types of accounts were flat. Almost all respondent banks raised their prime lending rates and consumer lending rates since the last survey. Lending standards were unchanged.

Energy

District energy activity remained very strong in late October and early November but eased slightly from the previous survey. The count of active oil and gas drilling rigs in the region edged down to mid-summer levels but was still well above year-ago levels. About half of contacts continue to report constraints on drilling due to labor and equipment shortages. Absent these constraints--which are expected to persist for at least another six months--contacts believe drilling could increase by 10 to 20 percent.

Agriculture

Agricultural conditions in the district were strong in late October and early November. The harvest of spring-planted crops was nearly complete, and producers reported above-average quality and yields, especially for corn and soybeans. Winter wheat planting was also completed, and conditions were favorable heading into the dormancy period. In the livestock market, the price of feeder cattle moved down slightly since the last survey, but ranchers were still reluctant to expand herds. Agricultural bankers generally expect farm income to reach a new record in 2004.

Labor Markets, Wages, and Prices

Wage pressures remained modest despite further firming in labor markets, but price pressures persisted for manufacturers and builders. Labor markets showed further steady improvement, as layoff announcements continued to decline and hiring announcements remained solid. Hiring of temporary workers was reported as stronger in some areas but little changed from recent months in other areas. A number of firms continued to have difficulty finding qualified workers, especially in the energy sector and for some skilled factory and repair positions. However, wage pressures were still generally modest outside of the energy sector. Most retailers reported flat selling prices compared with previous surveys, though some sellers of furniture, flooring, appliances, and hardware continued to report modest price increases. Retailers and mall managers generally expect holiday price promotions to be similar to previous years. Virtually all builders continued to report higher prices for a broad range of materials, including lumber, drywall, cement, and steel products. However, they generally expect these prices to level off in the near future. A large number of manufacturers also continued to report higher materials costs, and many of these firms reported increases in output prices as well. Most plant managers expect input price pressures to persist in the months ahead, though some anticipate a pause in the rise in steel prices. As for output prices, several firms previously unable to raise their prices believe they will soon be able to do so.

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Eleventh District--Dallas

Eleventh District economic activity appears to have accelerated slightly from mid-October to mid-November. Manufacturing and business service activity continued to slowly strengthen. Retail sales and construction were mixed. Financial institutions report continued improvement in conditions. Energy activity is up. Agricultural conditions remain mostly favorable. Many respondents noted relief that the election was over, explaining that it wasn't because one candidate won over another as much as the elimination of uncertainty.

Prices
There were many reports of higher prices but also reports of downward price pressures. Energy prices remain relatively high after spiking and then declining slightly. Higher costs for energy and other inputs remain a concern for most respondents. Some say they are increasing selling prices enough to make up for the cost increases. Others say competitive pressures, both domestic and international, are making that difficult. Contacts say import competition, particularly from China, is keeping downward price pressure on some manufactured products, such as apparel and fabricated metals.

After surging to near $56 per barrel on the spot market, crude prices dropped to slightly below those reported in the last Beige Book. Crude inventories are now near the five-year average level for November, helped by a surge of imports that had been delayed by Gulf Coast hurricanes. Private forecasts of a cold winter and spiking heating oil prices pushed spot natural gas prices to near $8 per million Btu in early November, but prices fell to near $7 per million Btu as natural gas storage rose to record levels.

With the possibility of stronger than normal seasonal demand for heating oil, contacts report concerns about heating oil production for the coming winter. Refiners have been in a significant turnaround period, and operating rates in October were below normal even for the fall maintenance season. Heating oil inventories have fallen to levels near the bottom of the five-year range. Heating oil prices have been whipsawed by uncertainty about the ability to refill inventories before winter arrives.

Selling prices are up for most chemical products. Producers say heavy demand is helping them pass along significant cost increases, primarily from energy, but also from shipping and other material inputs. Metals producers say selling prices are up slightly because of steep cost increases for aluminum, scrap metal, nickel and alloy.

Some producers express concerns about the effects of a weaker dollar, noting that increased costs for imported materials are pushing up prices for final products. Other contacts say they are not affected by changes in the value of the dollar because they do much of their transactions in dollars or in currencies that are pegged to the dollar.

Retailers anticipate the January 2005 elimination of import quotas for textiles to lower imported textile prices by as much as 13 percent to 18 percent. This reduction is expected to be reflected in prices for spring merchandise. Retailers do not expect to reduce selling prices. They say lower costs will translate into "more normal" profits and an improved quality of merchandise.

Labor Market
There are few reports of hiring or wage increases, although higher benefit costs, particularly for health care, remain a pervasive concern. Temporary service firms say they hope to push through higher fees to offset an increase in the Texas state unemployment insurance tax that they have been told is likely in January 2005.

Manufacturing
Manufacturing activity increased for most products. Demand was up for fabricated metals, high-tech, food and energy-related products. Sales remained strong for construction-related products, such as lumber, clay, cement, brick and glass, but contacts are cautious about slowing demand for housing.

Sales of primary metals declined slightly over the past couple of months, leading to a few shift reductions but no major layoffs. While contacts noted some continued effect from the hurricanes, they say there was also increased competition from Chinese imports. Sales of paper products have been lower than expected for this time of year, which contacts attribute to loss of market share to overseas producers.

Demand for food products increased some over the past month. Apparel producers say demand has been unchanged over the past month but is up from three months ago. Apparel manufacturers are very concerned about China's import quota ending next year.

High-tech manufacturers report that production and orders continue to grow at a good pace. Contacts say retailers have built inventories of IT products in expectations of healthy Christmas spending and there may be some shortages if sales are very strong.

Demand was up for energy-related manufacturers, including producers of oilfield hardware, tools and well-bore equipment, who reported higher prices, sales and margins. Demand for chemicals is extremely strong, particularly for products such as ethylene, polyethylene, polypropylene, polyvinyl chloride, chlorine, and caustic soda. Export demand for petrochemicals was very strong, based on favorable natural-gas-to-oil-price ratio, a weaker dollar, and significant operating problems in Europe and Venezuela. Refiners' margins have steadily improved in recent weeks, coming back from a significant decline in margins in late summer.

Services
Demand for temporary staffing firms picked up in most parts of the district. Demand strengthened for light industrial manufacturing, administrative and clerical work, according to contacts, but demand remained weak in the financial services sector. There were reports of temporary workers being made permanent, which contacts said was unusual for this time of the year.

Demand for legal services has been strong in the past month, and contacts say activity is up compared with a year ago. Accounting firms report that demand remains very strong and increasing, mostly due to the increased needs of the Sarbanes-Oxley Act. Accounting firms report substantial hiring, particularly for auditors and risk management professionals. Salaries for these types of professionals have increased by as much as 7 percent to 8 percent this year.

High fuel costs continue to plague transportation service firms. Railroads report high loads, particularly to carry metallic ores, metals, wood, building products and domestic consumer goods. The airline industry continues to suffer from too much capacity and no pricing power, forcing them to absorb all cost pressures. Contacts say that restructuring is being impaired by bankrupt carriers that continue to operate below total costs, pulling down healthier carriers.

Retail Sales
Sales growth increased for retailers selling to upper-and middle-income consumers, with particularly strong sales of high-end products, such as HDTVs and jewelry. Respondents attributed the increase in sales to lower gasoline prices, greater job security and reduced geopolitical concerns. Sales growth was "disappointing" for retailers selling to the lower-income consumers. Contacts say that these consumers are still feeling the strain of high gasoline prices and health care costs. Automobile sales remain soft, down slightly from year ago levels, with inventories higher than desired.

Construction and Real Estate
Housing sales and prices softened slightly over the past six weeks. Existing home sales tapered off, and homebuilders say traffic has slowed and they are offering more concessions. Many homebuilders report that sales are still above last year's levels, but inventories continue to rise. Housing industry contacts are optimistic for 2005, but say a stronger rate of job growth is needed to meet sales expectations.

The continued construction of new units is weighing down apartment markets in Dallas and Houston. Occupancy levels in Austin and San Antonio have improved, but contacts remain cautious about the outlook because of the amount of construction proposed and underway.

Office markets improved over the past six weeks. Respondents say leasing activity continued to pick up slowly. Existing tenants are expanding lease space, as companies and take advantage of low rental rates. Tremendous capital market activity continues. Office construction remains very low, with most being build-to-suit or government funded.

Financial Services
Deposit growth was flat to up. Commercial and industrial lending activity appears to be picking up, but contacts report that lingering uncertainty about the economy is still slowing some investment. Some contacts expressed concerns that higher interest rates are slowing lending, particularly to small business. Mortgage lending was flat to down.

Energy
U.S. crude oil demand has been near or slightly below what is expected for this time of year. The domestic rig count increased over the past six weeks, with most of the gains directed to oil. More land rigs are under construction, and some are being upgraded to support faster and deeper drilling. International drilling also rose in November, particularly in the North Sea. (Data show that international activity fell sharply in October, but contacts believe it was a

statistical aberration because an unusual number of rigs were in transit instead of working.) Conditions in the oil field services and machinery sectors are improving, and most segments of the industry are busy and enjoying higher prices, growing backlogs of work and equipment orders, and expectations that their markets will remain strong.

Contacts report capacity constraints in some areas, but there appears to be potential for continued expansion in oilfield equipment manufacturing, oilfield construction and shallow offshore drilling. There have been some reports of short supplies of steel products in the oil patch--including drill pipe, downhole tubing, and anything made of stainless steel. Most respondents noted capacity constraints in labor-intensive oilfield services where people have to be especially well trained and qualified--such as fracturing, pressure pumping or tubular makeup. In addition, rental rates have improved for rigs capable of drilling deep water because many rigs were moved to other areas of the world that promised greater returns. The oilfield services that could not leave with the rigs--such as downhole fluids, supply boats, and helicopter services--are in excess supply.

Agriculture
Rain improved soil moisture conditions but halted planting and harvest in some areas. Supplemental feeding of livestock was active in the wet parts of the district. Estimates of Texas cotton production were revised up to 7.7 million bales, this will be an increase of 78 percent from 2003 and 27 percent from the record 1949 harvest. Strong U.S. production has pushed down prices for cotton, soybeans and corn. Contacts say demand is unchanged for most crops, but they hope that the weaker U.S. dollar may boost exports. Strong demand for calves and feeder cattle continue to boost cattle prices.

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Twelfth District--San Francisco

The Twelfth District economy expanded solidly in October and early November, maintaining the pace of growth of the previous survey period. In terms of inflation, retailers reported stable prices despite increasing costs and makers of IT products noted ongoing price declines for many of their goods and services. Other contacts continued to comment on the higher cost of energy, shipping, and building materials. Wage increases remained modest, but rising benefits costs continued to push up total compensation. Retail sales reportedly were solid and demand for District services remained strong. District manufacturing activity was mixed, with some sectors reporting solid growth and others noting some softening. District agricultural producers reported strong demand for most products. Activity in District residential real estate markets generally was robust, with slight moderation in some areas. Contacts indicated modest improvements in commercial real estate; office and industrial vacancy rates fell slightly in several markets. District banking and financial conditions were little changed, with solid overall loan demand and good credit quality.

Prices and Wages
In terms of inflation, District retailers reported stable final prices despite rising costs for wholesale merchandise and shipping; retailers noted that they continue to hold the line on prices, taking cost increases out of margins. Makers of IT products reported additional price declines for some of their goods and services. Consistent with softer IT investment, price declines for some types of semiconductors reportedly accelerated. Several other contacts noted increases in transportation costs--land, sea, and air--and some reported paying

surcharges on international shipping. Respondents continued to comment on the higher costs of energy and building materials. Wage and salary growth remained modest overall, although most District businesses continued to report that increases in benefits costs were pushing up total compensation bills.

Retail Trade and Services

Reports from District retailers indicated solid retail sales in October and early November. Recent sales have boosted expectations for the coming holiday season. Despite a relatively good holiday sales outlook, contacts reportedly are keeping inventories and seasonal hiring in line with last year. In contrast to other retail goods, sales of autos slowed somewhat, reflecting soft demand for domestic brands; sales of foreign makes remained solid. Slower sales of domestic makes reportedly left some District auto dealers with unplanned inventory.

Contacts reported robust demand for District services. District seaports continued to handle very high volumes, boosted by surging imports and a pickup in exports. The volume of traffic, especially on the import side, has caused considerable congestion, resulting in a backlog of unloaded inbound ships in southern California. Contacts reported that shipping lines recently increased their prices for ground and sea transport in response to the bottlenecks. District travel and tourism also has been vigorous, with increases in both domestic and international traffic. Contacts noted improvements in hotel occupancy and increases in average daily room rates in many markets.

Manufacturing

Conditions in District manufacturing were mixed across industries in October and early November. Makers of machine tools reported a pickup in new orders for their products, allowing them to work down previously accumulated inventories. Improved sales of lumber, wood, and other building products boosted production in that sector. Demand for apparel and textile products was robust in recent weeks. In IT manufacturing, semiconductor orders and sales were flat; inventories of chips increased and capacity utilization dropped slightly. Respondents at IT firms other than semiconductors noted that demand softened relative to earlier in the year.

Agriculture and Resource-related Industries

District agricultural producers reported strong domestic and foreign demand for most agricultural products. Agricultural exports continued to rise. District natural gas providers reported a slight rise in both wholesale and retail prices. The high and rising natural gas prices have kept drilling activity at full capacity.

Real Estate and Construction

Demand for residential real estate generally remained strong, although in some areas the pace of home sales and price increases slowed slightly from previous rapid rates. On the commercial side, contacts indicated modest improvements; office and industrial vacancy rates edged down in several markets. The robust demand for homes, improved demand for commercial properties, and some increased public spending kept overall construction activity at high levels. Contacts noted that the supply of some construction materials, such as steel, improved, but other building materials, such as cement, continued to be in short supply.

Financial Institutions

District banking contacts reported little change in overall loan demand or credit quality in recent weeks. Construction lending remained strong and commercial and industrial lending edged up slightly in some areas. Residential mortgage lending continued to soften, pulled down by a drop in refinancing activity, but remained at high levels. Contacts reported that loan quality remained good.

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