For use at 2:00 p.m., E.D.T.
Wednesday
April 15, 2009

Summary of Commentary on ________________________

Current Economic Conditions

By Federal Reserve District

April 2009

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

APRIL 2009

TABLE OF CONTENTS

SUMMARY i

First District - Boston I-1

Second District - New York II-1

Third District - Philadelphia III-1

Fourth District - Cleveland IV-1

Fifth District - Richmond V-1

Sixth District - Atlanta VI-1

Seventh District - Chicago VII-1

Eighth District - St. Louis VIII-1

Ninth District - Minneapolis IX-1

Tenth District - Kansas City X-1

Eleventh District - Dallas XI-1

Twelfth District - San Francisco XII-1

Summary*

Reports from the Federal Reserve Banks indicate that overall economic activity contracted further or remained weak. However, five of the twelve Districts noted a moderation in the pace of decline, and several saw signs that activity in some sectors was stabilizing at a low level.

Manufacturing activity weakened across a broad range of industries in most Districts, with only a few exceptions. Nonfinancial service activity continued to contract across Districts. Retail spending remained sluggish, although some Districts noted a slight improvement in sales compared with the previous reporting period. Residential real estate markets continued to be weak. Home prices and construction were still falling in most areas, but better-than-expected buyer traffic led to a scattered pickup in sales in a number of Districts. Nonresidential real estate conditions continued to deteriorate. Difficulty obtaining commercial real estate financing was constraining construction and investment activity. Spending on business travel declined as corporations cut back. Reports on tourism were mixed. Bankers reported tight credit conditions, rising delinquencies, and some deterioration of loan quality.

Agricultural conditions were generally favorable across Districts, although drought conditions persisted in the Dallas and San Francisco Districts. The Districts reporting on energy said reduced demand, high inventories, and lower prices led to steep cutbacks in oil and natural gas drilling and production activity. The Minneapolis, Kansas City, and Dallas Districts noted declines in employment in the oil and gas extraction industry.

Downward pressure on prices was reported across Districts. Wage and salary pressures eased as labor markets weakened in all Districts, and many contacts continued to report job cuts and wage and hiring freezes. Employment continued to decline across a range of industries, with only scattered reports of hiring.

---

* Prepared at the Federal Reserve Bank of Dallas based on information collected on or before April 6, 2009. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Manufacturing

Manufacturing activity continued to decline in most Districts and across a wide range of industries. Several reports, however, noted that the pace of decline had slowed or that factory activity had stabilized. The Boston, Philadelphia, Richmond, Atlanta, St. Louis, Minneapolis, and San Francisco Districts cited decreases in production. The Chicago and Kansas City Districts said declines in production had slowed. The Cleveland District noted some leveling off in declines in new orders, and the New York and Dallas Districts noted that demand was beginning to bottom out following steep declines. Orders and shipments of capital goods, autos, paper, and construction-related equipment and products such as metals, wood products, lumber and electrical machinery remained mostly sluggish and below year-ago levels, with the Chicago District noting an increase in order cancellations and deferral requests. Aircraft makers in the Chicago District noted declines in demand, while aerospace manufacturers in the San Francisco District reported that a drop in airline passenger traffic and cargo capacity had spurred order cancellations and delivery deferrals.

In contrast, orders and sales of high-tech equipment firmed somewhat at very weak levels in the Dallas and San Francisco Districts. Defense firms in the Boston and Cleveland Districts reported solid activity. Food manufacturers saw sales gains in the Philadelphia and San Francisco Districts, and a food manufacturer in the St. Louis District noted plans to open a new plant. Pharmaceutical firms in the Boston and Chicago Districts continued to see solid demand; petrochemical producers in the Dallas District noted a slight turnaround in operating rates.

Manufacturers' assessments of future factory activity improved marginally over the survey period as well, with contacts in the Boston, New York, Philadelphia, Atlanta, and Kansas City Districts noting a slight upturn in the outlook for production and sales. Capital expenditure plans remained on hold across most regions, and the Boston, Philadelphia, and Cleveland Districts noted cuts in capital budgets.

Nonfinancial Services

Districts that report on nonfinancial business services said demand continued to fall across most industries. Providers of health-care services noted further declines in activity, and contacts in several Districts noted demand for professional services, such as architecture, business consulting and legal services, remained weak. Demand for IT services was mixed.

Among service firms, there were reports of customers delaying payments or asking for price reductions, and receivables were harder to collect.

While there were scattered reports of optimism, temporary staffing firms generally continued to report weak conditions. Firms in the Dallas District were not renewing contracts on current personnel, and the New York District characterized the supply of available workers as "inexhaustible."

Shipping activity continued to fall over the past six weeks as both domestic and international demand remained dampened. Contacts in several Districts said shipments of construction-related manufacturing products continued to drop at a substantial pace.

Consumer Spending and Tourism

Consumer spending remained generally weak. However, several Districts said sales rose slightly or declines moderated compared with the previous survey period. In particular, the Boston, Cleveland, and Chicago Districts reported an improvement in sales. Purchases of big ticket and luxury items continued to decline while spending on food and necessities fared better. The Philadelphia, Dallas, and San Francisco Districts reported that consumers were looking for value, and were opting for lower-priced, private label products over higher-priced alternatives. Retailers kept inventories lean, in line with the slow pace of sales, and most expect demand to stay at current low levels over the next few months.

Auto dealers continued to struggle, and overall vehicle sales were sluggish in all reporting Districts as weak demand and tight credit continued to limit sales. Used vehicle sales improved slightly in the Boston, Cleveland, Kansas City, and San Francisco Districts, but new car sales remained feeble. Dealers in the Philadelphia District reported difficulty in obtaining financing for inventory purchases, and a few dealerships in the St. Louis District went out of business, but dealers in the Cleveland District reported minimal problems with floor-plan financing. While auto dealers in the Boston, Cleveland, and Kansas City Districts noted some improvements in the outlook, those in the Philadelphia and Dallas Districts expect continued weakness.

Travel and tourism activity contracted further in several reporting Districts, as households and businesses continued to scale back on discretionary and travel spending. Tourist spending in the New York, Minneapolis, and San Francisco Districts saw double-digit declines compared with the prior year. Airlines in the Dallas District and hotel contacts in the Kansas City District reported weakening demand for business travel, while the Atlanta District noted convention cancellations. Restaurants continued to see sluggish activity in the Kansas City and San Francisco Districts, which prompted further layoffs and closures in the latter region. In contrast, mountain resorts in the Richmond District said ski season demand was on par with last year, and cruise liners in the Atlanta District reported that deep discounting spurred bookings.

Real Estate and Construction

Housing markets remained depressed overall, but there were some signs that conditions may be stabilizing. Many Districts said factors such as homebuyer tax credits, low mortgage rates, and more affordable prices led to a rising number of potential buyers. The Richmond, Atlanta, Minneapolis, Kansas City, and San Francisco Districts noted a modest improvement in sales in some areas.

New home construction activity fell further, however, as inventories remained elevated. Nonetheless, several Districts, including Atlanta and Kansas City, said that inventories of unsold homes had turned down slightly.

Home prices continued to decline in most Districts, although a few reports noted that prices were unchanged or that the pace of decline had eased. Low mortgage rates were fueling refinancing activity. Outlooks for the housing sector were generally more optimistic than in earlier surveys, with respondents hopeful that increased buyer interest would lead to better sales.

Nonresidential real estate conditions continued to deteriorate over the past six weeks. Demand for office, industrial and retail space continued to fall, and there were reports of increases in sublease space. Rental concessions were rising. Property values moved lower as reality “set in.” Construction activity continues to slow, and several Districts noted increased postponement of both private and public projects. Nonresidential construction is expected to decline through year-end, although there were some hopeful reports that the stimulus package may lead to some improvement.

Commercial real estate investment activity weakened further. Contacts said a decline in credit availability and markdowns on commercial property were keeping buyers and sellers on the sidelines.

Banking and Finance

Most Districts reported weaker loan demand overall, but the reports were mixed across loan categories. In particular, the New York, Richmond, and Kansas City Districts noted an increase in residential real estate loans. Additionally, residential refinancing activity remained brisk, although the loan process was taking longer due to more stringent appraisals and underwriting standards. Demand for commercial and industrial loans was weak, and there were several reports that business borrowers were postponing capital expenditures. Commercial real estate lending continued to decline. Credit availability generally remained very tight across regions. A number of Districts reported deteriorating loan quality and rising delinquencies for all types of loan categories. In particular, several reports noted more stringent requirements for commercial real estate loans due to worries of worsening loan quality in the sector.

Agriculture and Natural Resources

Most regions reported improved planting and growing conditions, with the exception of the Dallas and San Francisco Districts, which are experiencing ongoing drought. Although beneficial, rainfall delayed field preparations for spring planting in the Richmond and Chicago Districts. Contacts in the Chicago District reported that producers had benefited from falling input prices, which are helping farmers obtain loans. Livestock producers in the Chicago, Kansas City, and Dallas Districts continued to be challenged by weak demand and low prices. Low milk prices have resulted in significant financial losses for dairy farmers in the Chicago and Dallas Districts, and have caused producers in the latter region to reduce their dairy cow herds.

Reduced demand, rising inventories, and lower prices for oil and natural gas led to further declines in energy sector activity. Drilling activity fell sharply in the Minneapolis, Kansas City, and Dallas Districts; respondents in the Atlanta and San Francisco Districts reported decreases as well. The Dallas District noted that the number of working U.S. rigs contracted by 300, and more than half of the decline was in Texas. In contrast, production was stable in the Cleveland District; gold mining is strong and wind energy projects moved ahead as planned in the Minneapolis District. Consistent with falling activity, the Minneapolis, Kansas City, and Dallas Districts noted further layoffs in oil and gas extraction. Looking forward, energy contacts in the Cleveland District said that they intend to lower capital spending over the next few months.

Prices

Districts that report on prices noted downward pressures. Oil prices rose during the survey period, although most other commodity prices were stable to down. Manufacturers noted declines in the cost of raw materials and inputs, and product prices were generally said to be steady to down. Significant discounting was reported among retailers, and there were numerous examples of service providers reducing fees. In particular, accounting and legal firms in the Dallas District were responding to customer requests for lower fees, while the San Francisco District found prices were declining for professional services and lodging. Transportation service contacts noted a reduction in prices.

Labor Markets and Wages

Labor market conditions were weak and reports of layoffs, reductions in work hours, temporary factory shutdowns, branch closures and hiring freezes remained widespread across Districts. Staffing firms in the New York, Cleveland, Richmond, Chicago, and Dallas Districts reported that demand for workers remained sluggish. The manufacturing and energy extraction sectors were the most affected but there were numerous reports of job cuts in the retail and services industries as well. The St. Louis District reported payroll declines in information and medical services, while the Cleveland District cited layoffs in transportation and financial services. The Dallas District noted further cuts in the real estate and construction industry; layoffs at major financial firms continued in the New York District; and the Philadelphia District reported that unpaid furloughs had been instituted by state and local governments. In contrast, Districts including Cleveland, Chicago, and Minneapolis reported some hiring in healthcare. Contacts in the Richmond District noted solid demand for technically-skilled professionals and IT and office-support workers. The Chicago and Dallas Districts saw a slight uptick in hiring of finance personnel due to the sharp increase in mortgage refinance activity. The St. Louis District reported that a food manufacturer and some wood and plastic manufacturers planned on expanding their operations and hiring additional staff. The employment outlook is generally bleak. Contacts in several Districts have instituted hiring freezes and anticipate further cuts in jobs and work hours.

Continuing layoffs, furloughs and hiring freezes kept wage pressures minimal. Contacts from a broad range of industries reported pay freezes, with some noting salary reductions. The Minneapolis District reported that unionized faculty at Minnesota's technical and community colleges had tentatively accepted a two-year pay freeze. Contacts in the Boston, Philadelphia, Richmond, Chicago, and San Francisco Districts reported cuts in certain non-wage employment benefits, including cuts in bonuses, elimination or suspension of employer contributions to employee retirement programs, and increases in copayments on employer sponsored healthcare plans.

FIRST DISTRICT – BOSTON

Business activity continues to slow in the First District, with the partial exception of the non-auto retail sector where contacts say sales are better than expected. Manufacturers report ongoing year-over-year declines in sales or orders, with the pace worsening in the first quarter. Most responding consulting and advertising firms cite marked declines in first-quarter demand compared with a year ago. Commercial and residential real estate markets remain in the doldrums, although residential contacts see early signs of improvement. Business contacts indicate that costs are generally declining and most price pressures are downward; real estate prices continue to fall, but most responding manufacturers and advertising and consulting firms are holding prices steady.

Retail

The majority of non-auto retailers contacted in the First District report sales gains for February and early March, with same-store sales up from a year earlier by mid single-digit percentages. Several contacts note that business seems to be improving slightly from previous periods or that results are better than expected even if below year-earlier levels. In particular, items that appear to be a good value to the consumer are selling well. As one respondent notes, “value has never been more important; people are trying to stretch their purchasing power.” By contrast, automobile dealers in the First District continue to struggle, with nearly all respondents reporting declines in sales ranging from 10 percent to 50 percent from a year earlier. Dealers attribute these declines largely to lower foot traffic and to potential car buyers’ difficulties in obtaining credit; they also note a shift in demand from new to pre-owned vehicles.

Retailers continue to manage inventory levels tightly. Although a few contacts mention improving expansion opportunities, most have cut 2009 capital spending plans, typically by 25 percent to 50 percent from last year. Some respondents are hiring “only where necessary,” and others say they will be reducing headcount in the near future. Most contacted retailers have also frozen wages and/or eliminated bonuses. Overall, First District retailers are cautiously optimistic, with several expecting to improve, albeit hesitantly, by the fourth quarter.

Manufacturing and Related Services

Most manufacturing and related services contacts headquartered in the First District report that market conditions worsened in the first quarter of 2009—in some cases, deeply and abruptly. More than one-half of respondents say that sales or orders were down at double-digit rates from a year ago. Capital goods manufacturers in particular indicate that their customers have become more cautious, with some holding their purchases below budgeted amounts and a few cancelling orders or delaying delivery. One major equipment maker is “surviving on our order backlog,” while another says “the world has really changed” since the turn of the year. Respondents report year-over-year sales growth only in limited areas, including defense equipment, goods and services used in scientific research, and biopharmaceuticals and selected other health-care-related products.

Many manufacturers indicate that various input costs have come down in recent months, including steel and oil and gas derivatives, while selling prices have remained fairly flat. Respondents mention that some of their suppliers have come under financial stress, which has led to actual or potential disruptions in sourcing or requests for advance payments and other forms of assistance.

About three-quarters of the contacted manufacturers and related services providers plan to cut domestic employment in 2009; some say they are inclined to reduce headcount by more than they had intended at the start of the year. In addition, about three-quarters of the respondents are freezing or reducing employee compensation. Measures include deferrals or suspensions of merit pay increases, reductions in wages and salaries, furloughs and temporary factory shutdowns, suspensions of 401K plan matches, and higher employee contributions for health insurance.

Over one-half of respondents expect to cut capital spending in 2009, mostly because of weak sales but in some cases to preserve cash. Of the remaining firms, the majority expect to keep total investment roughly unchanged from 2008 levels. Some companies are seeking to sell off marginal or unprofitable business units.

Several manufacturers and related services providers acknowledge that the U.S. economic environment may possibly improve by yearend 2009 as a result of the fiscal stimulus package and other initiatives. However, the combination of strong economic and financial headwinds and ongoing global uncertainties are causing contacts to plan for a continuation of challenging conditions.

Selected Business Services

Most First District advertising and consulting contacts report weaker demand in the first quarter of 2009, with demand declining from 15 percent to 40 percent year-over-year for all but one. Several business services respondents say these are the first year-over-year sales decreases since their firms' creation. In some cases, the steep drop in demand was associated with the loss of large clients that merged or were acquired by other companies. On a positive note, however, a number of firms saw an improvement in demand in recent weeks.

Costs have remained stable or decreased somewhat for contacted advertising and consulting firms. All respondents are experiencing downward price pressures and observe steep price reductions, up to 50 percent, by some competitors. Nevertheless, contacted companies have held prices constant and do not expect to change them in 2009. Although several firms made significant headcount reductions in 2008, half of the respondents will maintain stable employment in 2009 and some firms will continue to hire, although at a slower pace than during normal times. Wages and salaries at most firms will be held constant in 2009. In the few cases where salaries increased, the changes were less than 2 percent as compared with the usual 6 or more percent. Some firms have cut bonuses significantly or have moved full-time employees to part-time status. Most New England business services respondents foresee a tough second quarter and expect demand to start recovering in the second half of the year.

Commercial Real Estate

The commercial property market for deals over $10M remains largely dormant in New England, according to contacts. Both sides of the market remain reluctant, as buyers face tight credit and sellers resist price markdowns. However, deals valued below $10M continue to occur at a modest pace; most are obtaining financing from regional and community banks. The recent foreclosure auction of Boston's Hancock Tower confirms that property values in the region continue to fall; contacts predict that typical office properties in Boston will experience declines in value on the order of 25 percent to 40 percent from their peak.

Leasing volume remains slow in all markets in the region. In greater Boston, rents continue to fall as both official vacancy rates and shadow vacancy (including slack space and/or space for sublease) continue to increase; office vacancy is estimated near 15 percent. Substantial downward pressure on office and retail rents is also reported for Providence, Hartford, and Portland (ME). In Providence, the office sector is experiencing negative absorption, but leasing activity for industrial properties remains "brisk," with absorption close to zero and vacancy still below 10 percent. In Hartford, net absorption of office space was estimated at roughly zero; Hartford's industrial sector, like Rhode Island's, was relatively active as firms "repositioned themselves for an eventual recovery." The Hartford retail market fared better than a contact expected, measured by the number of store closings. However, Portland's retail market is seeing vacancies of prime space continue to accumulate. Light industrial was the strongest sector in Portland, with no increase in vacancies.

Most contacts remain pessimistic about the outlook for the commercial real estate market, given weak labor and credit market conditions. However, our Hartford contact detected a positive shift in sentiment in mid-March and predicts that leasing and sales activity will pick up in the fourth quarter as liquidity returns to the market for commercial mortgage-backed securities.

Residential Real Estate

Through February, home sales and prices continued to decline across most of New England, although contacts cite some positive signs. Home sales fell year-over-year in February by 11 percent in Massachusetts, 15 percent in Rhode Island, 22 percent in Maine, and 26 percent in Connecticut. However, New Hampshire home sales increased 1 percent year-over-year. The median home price fell 17 percent or more year-over-year in these five states; Rhode Island's 26 percent drop was the largest. Condo sales declined 16 percent year-over-year in Massachusetts, 32 percent in Rhode Island, and 42 percent in Connecticut, as median condo prices fell 11 percent to 15 percent.

Despite the mostly negative numbers in February, contacts report several reasons for optimism about New England housing markets. Beyond the February sales data, a New Hampshire contact says that activity is picking up. There are also reports of increased activity, especially open house attendance, in Massachusetts. Respondents stress that low prices, low interest rates, and the new-homebuyer tax credit should encourage home-buying in the near term; several view the tax credit as a key reason for the recent pick-up in activity. Another positive note is that the Massachusetts condo market saw unseasonable month-to-month increases in sales and prices in February.

SECOND DISTRICT--NEW YORK

The Second District's economy has continued to contract since the last report, though at a more subdued pace. Contacts in a number of industry sectors now report less widespread declines in business activity and express considerably more optimism about the near-term outlook, but continue to report ongoing weakening in employment. Retailers indicate that sales were weak but on or close to plan in both February and March, while inventories are generally said to be at satisfactory levels. Consumer confidence, though, remained at or near record lows in March, and tourism activity in New York City has been increasingly sluggish: both hotels and Broadway theaters report fairly steep drops in revenue over the past year. Commercial real estate markets have continued to deteriorate since the last report, while housing markets have been mixed but generally weak. Finally, bankers report widespread increases in demand for home mortgages, including refinancing, but steady to somewhat weaker demand in other loan categories; they also report further tightening in credit standards and continued, though not dramatic, increases in delinquency rates across all segments.

Consumer Spending

Retail sales were reported to be down from a year earlier in February and March but generally on or close to plan. One large retail chain reports that same-store sales fell more than 10 percent from a year earlier, but another major chain, as well as two large shopping malls in upstate New York, report more modest declines. To some extent, March sales comparisons (and plans) are adversely affected by the later Easter this year. Upstate, a drop-off is reported in the number of Canadian shoppers, which had been an important segment of the market during much of 2008. Despite the ongoing weakness in sales, retail contacts mostly report that inventories are at satisfactory levels.

Consumer surveys show confidence indexes to be at or near record lows. The Conference Board reports that consumer confidence among residents of the Middle Atlantic states (NY, NJ, Pa) slipped 2 points to another record low in March. However, Siena College's monthly survey of New York State residents showed confidence edging up a point in March, though it is still only moderately above its record low set last October.

Tourism activity in New York City has weakened a bit further since the last report. Manhattan hotels report steep year-over-year declines in revenue—down 33 percent in February and 35 percent in March—reflecting 20 to 25 percent drops in room rates, coupled with noticeably lower occupancy rates. Broadway theaters are also seeing continued weakening in business: they report that attendance picked up a bit more than the seasonal norm from February to March, but it was still down 16 percent from a year earlier. With average ticket price little changed, total revenues were down 15 percent from a year earlier.

Construction and Real Estate

Commercial real estate markets in the District were mixed in the first quarter. New York City's office market continued to deteriorate, with vacancy rates climbing to a 4-year high at the end of March and asking rents on Class A space falling 14 percent from a year earlier. A major commercial broker cites a huge increase in available sub-lease space, mostly from financial service firms. In contrast, office markets in outlying areas were steady to slightly stronger in the first quarter: vacancy rates and asking rents were little changed in northern New Jersey, Westchester and southwestern Connecticut; in Long Island, vacancy rates improved to a 3-year low, while rents edged higher. Similarly, office markets in upstate New York showed resilience: office vacancy rates declined in the Buffalo and Syracuse areas and were little changed in metropolitan Rochester and Albany; rents were little changed across the board. The purchase market, however, is still reported to be exceptionally sluggish throughout most of the District.

The rental market for industrial space was steady to softer in the first quarter, as was the market for retail space. Manhattan's retail market softened more than others: while vacancy rates were steady at low levels, asking rents declined sharply for the second straight quarter, and a relatively large volume of new retail space is due to be completed in the fourth quarter of 2009, much of it still unleased.

Housing markets have continued to weaken in much of the District since the last report—particularly in the multi-family segment. New York City's rental market continued to soften in March: asking rents in Manhattan were estimated to be down just 5-6 percent from a year earlier, but with the growing prevalence and size of concessions (waiving of rental fees, 1-3 months free rent, etc.), effective rents have reportedly fallen much more sharply—especially in full-service buildings. The inventory of rental listings has continued to increase, particularly in non-doorman buildings; one large brokerage firm reports that the rental vacancy rate has nearly doubled over the past 12 months. Manhattan's apartment sales market deteriorated markedly in the first quarter: the median sales price for condo re-sales was down 16 percent from a year earlier, while co-op prices fell 22 percent. The number of sales transactions fell nearly 50 percent from a year earlier, while the inventory (number of units listed) jumped 34 percent. Moreover, an industry contact maintains that there is a sizable "shadow" inventory of apartments—new condo units that are unsold but not yet listed. While quarterly data are not yet available for other parts of New York City, Brooklyn's market has reportedly slackened to an even greater extent than Manhattan's, largely due to a huge supply of newly constructed units.

The market for single-family homes has been mixed but generally weaker since the last report. A New Jersey industry consultant notes that resale activity, though still sluggish, picked up a bit in March—even after accounting for seasonality—but only on properties with fairly steep price reductions. However, a real estate broker in northern New Jersey maintains that traffic has been unusually quiet in recent weeks. Both contacts estimate that prices are off about 20 percent from their peaks, on average, and note that much of the activity is in "short sales", where the mortgage holder agrees to forgive part of the debt to the extent that it exceeds the selling price. Real estate contacts in upstate New York indicate somewhat more favorable market conditions. Home prices in the Buffalo-Niagara Falls area have reportedly remained steady thus far in 2009, though sales activity has fallen roughly 20 percent from 2008 levels. Contacts in both upstate New York and northern New Jersey note that the new tax credit for first-time home buyers has spurred at least some interest among potential buyers. Industry contacts throughout the District indicate that new home construction is running substantially lower this year than in 2008.

Other Business Activity

Contacts at both manufacturing and other firms in the District note movement toward stabilization in business activity, and optimism about the near-term business outlook is substantially more widespread than it has been since last September. In assessing the labor market, however, contacts in a broad range of industries report continued contraction in employment at their establishments, and most anticipate steady or declining employment levels in the months ahead. Separately, a major New York City employment agency reports that the job market remains exceptionally weak: job postings are few and far between and often quite specialized, while the supply of available workers is described as "inexhaustible". Many 2008 college graduates are still looking for jobs, with 2009 graduates now entering the market. A contact in the financial sector notes that, while a couple of major firms have largely completed their job cuts, layoffs continue at most large institutions; mergers and consolidation are said to be producing a gradual but persistent flow of job reductions that is expected to continue through this year.

Financial Developments

District banks report the most widespread rise in demand for residential mortgages in more than seven years, with 63 percent of bankers reporting increases; a majority of those surveyed also report increases in refinancing. However, demand for consumer loans continued to decrease, while demand was little changed, on balance, for commercial loans and mortgages. Respondents indicate continued widespread tightening in credit standards—particularly in the commercial mortgage category. Respondents report an increase in the spreads of loan rates over cost of funds for all loan categories except in the residential mortgage category, where there was no reported change. Respondents note widespread decreases in the average deposit rate. Finally, bankers again report rising delinquency rates, on net, across all loan categories, though it should be noted that a large majority report no change.

THIRD DISTRICT – PHILADELPHIA

Economic activity in the Third District continued at a slow rate in March. Manufacturers, on balance, reported declines in shipments and new orders. Retailers indicated that sales were nearly steady but well below the level of a year ago. Motor vehicle dealers reported a nearly steady but low rate of sales during the month. Bank loan volume has been flat in recent weeks, and credit quality has continued to deteriorate. Residential real estate sales were slow but appeared to be close to steady. Nonresidential real estate investment and construction activity continued to decline. Service-sector activity has been generally slow in recent weeks. Business firms in the region reported level or falling input costs and output prices in March.

The outlook in most industries in the Third District is subdued. Manufacturers forecast some gains in shipments and orders during the next six months, but little improvement is expected in other sectors. Retailers expect sales to remain near the current pace through spring, and auto dealers expect sales to remain around the current rate for most of the rest of the year. Bankers anticipate little growth in lending until both business and consumer confidence is restored. Residential real estate agents and home builders expect sales to remain near the current rate or to pick up slightly through the spring and summer. Contacts in nonresidential real estate expect leasing and purchase activity to remain weak through the rest of the year. Service-sector firms expect activity to be slow during the next few months, at least.

Manufacturing

Third District manufacturers reported further declines in shipments and new orders, on balance, from February to March. Around one-half of the manufacturers surveyed noted decreases in both measures, and around one-tenth reported increases. Among the District's major manufacturing sectors demand remains especially weak for primary metals, industrial machinery, electrical equipment, and measuring and testing equipment. Several firms in these sectors noted that demand for products related to autos or housing ranged from "weak" to "horrible." In contrast, makers of food products, furniture, and some fabricated metal products have had recent increases in orders.

The outlook among Third District manufacturers is slightly positive, although fewer forecasted improvement when recently surveyed than did so at the time of the previous Beige

Book. Among firms polled in March, around one-third expect new orders and shipments to increase during the next six months and around one-quarter expect decreases. On balance, area manufacturers continue to report that they will be reducing capital spending during the next six months.

Retail

Third District retailers generally reported nearly steady sales during March at a rate that remained well below the year-ago pace. Some stores reported slight gains in sales of low-priced household items and apparel during March, but for most stores and most lines of merchandise, there was little change in the sales rate from February. Store executives said consumers remain cautious and cost-conscious. As one retailer described consumer demand, "Customers are going to value. They are buying lower-priced products even when the high-end products go on sale." Retailers contacted for this report generally do not expect much change in sales in the next few months. Some believe the sales pace could stabilize during the spring. However, several noted that sales varied greatly week to week during the winter, so a sustained period of firming sales would be required as an indication that consumer spending was poised for a rebound.

Third District auto dealers reported that sales remained very weak in March. Dealers said the availability of financing for car purchases continued to limit sales, especially for domestic makes that do not have support from manufacturers' finance companies. Dealers also reported continued difficulty in obtaining inventory financing. Looking ahead, dealers see no sign of an upturn until consumer confidence is restored and financial conditions improve.

Finance

Total outstanding loan volume at Third District banks has been virtually flat in recent weeks, according to bankers contacted for this report. A small increase in consumer credit has been offset by decreases in commercial and industrial lending and residential mortgages. Commercial bank lending officers indicated that many business firms were reducing outstanding borrowing. "They're cutting inventory and postponing expansion, and paying down their lines," one banker said. A falloff in merger and acquisition activity was also cited as a reason for the declining demand for business loans. Business contacts said lending to businesses by non-depository financial institutions remained limited, especially for real estate and retail sector borrowers. Most of the banks contacted for this report said that credit quality continued to deteriorate for all categories of lending. Bankers generally expect demand for credit to remain subdued for the rest of the year. They say businesses will be reluctant to expand and consumers will be wary of adding to their indebtedness until economic conditions improve.

Real Estate and Construction

Residential real estate activity in the Third District remained slow in March. Residential real estate agents and builders reported that sales have been nearly steady at a slow pace, and the inventory of unsold new and existing homes has been practically unchanged. However, both builders and real estate agents noted a recent increase in the number of people looking at homes. Although they said the increase appeared to be mostly seasonal, several said the growing number of potential buyers could signal a bottom to the cyclical decline in sales. Builders and real estate agents characterized current sales as “bouncing along the bottom” or “stabilizing.”

Prices of both new and existing homes in the region continued to fall, but contacts said the rate of decline appeared to be easing. Builders continued to offer substantial incentives to purchasers, and larger firms continued to provide low-rate mortgages to some buyers. Builders and agents expect sales to remain at a relatively slow pace through most of this year even if there is a slight pickup through the spring and summer. Most of those contacted for this report do not expect significant improvement until the spring of next year.

Nonresidential real estate firms indicated that construction, leasing, and purchase activity continued to decline during the first quarter. They also reported that rental rates have been edging down. Many previously announced office, educational, and institutional construction projects have been postponed. Contacts expect nonresidential real estate leasing and construction activity to remain weak through most of the year. However, they said that infrastructure construction would likely increase in the second half as federal stimulus funds are spent, and they believe there could be slight improvement in some office markets in the fourth quarter, if economic conditions stabilize, because several large leases will need to be renewed at that time.

Services

Service-sector firms reported slow activity since the last Beige Book. Firms that provide services to construction, real estate, and finance sectors reported further declines in activity. Several educational institutions and health services firms have also cut back activity in response to either deteriorating financial conditions or to slowing demand. The region's service-sector firms generally anticipate soft conditions to persist for most of the balance of the year.

Prices and Wages

Reports on input costs and output prices indicate mostly steady or falling prices since the last Beige Book. Manufacturing firms noted decreases for most of the materials they use as well as the products they make. However, since the last Beige Book there have been reports from several industry sectors that prices have risen for food products and some metal products. Retailers have reduced prices for many products in a series of promotional efforts, but it is not clear that regular prices are trending down significantly.

Firms in a wide range of industries continued to report salary freezes or reductions and reductions in fringe benefits. A number of private firms have announced hiring freezes and layoffs, and employers in the private sector as well as state and local government have imposed unpaid furloughs.

FOURTH DISTRICT – CLEVELAND

Economic activity in the Fourth District remained weak through the end of March. The downward trend in factory output and steel shipments that began late in the third quarter of 2008 continued. However, we heard some reports of a leveling off in the decline for new orders. Residential construction remains very depressed, while commercial building activity was mixed. Sales by District retailers did show a slight improvement, and the precipitous drop in new motor vehicle sales has shown signs of stabilizing. Little change in energy production was noted; however, there is considerable downward pressure on spot and contract prices for natural gas and coal. Freight transport volume remains at low levels. Finally, regional bankers told us that commercial and industrial lending is down, while C&I loan portfolios at community banks are expanding. Core deposits showed strong growth.

Employment declines were seen in manufacturing, transportation, and banking, while healthcare care institutions continued hiring. Staffing firms reported an overall decline in job openings. Given the weak labor market, wage pressures are contained. Capital spending has been frozen or trimmed back significantly from 2008 levels. With the exception of commercial builders, survey respondents who participated in credit markets said they experienced little or no difficulty in obtaining financing for long- or short-term uses.

Manufacturing. Reports from District factories were mixed. Manufacturers of products used in industrial applications said that they continue to see a downward trajectory in orders. In contrast, there was a slight pickup in orders for products oriented toward the consumer market. However, several respondents noted that any increased production could be attributed to seasonal adjustments or the exit of market competitors. On a year-over-year basis, factory output fell by about 24 percent on average. Manufacturers expect demand will remain very soft during the next few months. Almost all steel producers and service centers reported a worse-than-expected slump in shipping volume. The only end markets cited as showing some stability were agricultural equipment and defense-related firms. Most survey respondents believe that the demand for steel will stabilize at current low levels through the second quarter. District auto production showed a significant rise during February on a month-over-month basis. The upturn is attributable to the restart of auto assembly plants after an extended year-end shutdown. On a year-over-year basis, both domestic makers and foreign nameplates experienced a precipitous drop in production, part of which is due to the permanent closing of a plant that produced SUVs.

Almost all of our contacts reported that their capital budgets are frozen or have been trimmed back significantly. Little change in spending is expected in the upcoming months. Manufacturers participating in credit markets noted that they experienced little or no difficulty in obtaining financing for long-term or short-term uses. Since our last report, raw material prices and product pricing have remained stable or declined, with metals accounting for most of the decline. Little inflationary pressure is expected during 2009. Almost all of our survey respondents continue to lay off employees or increase the number of nonproduction days. Predictably, wage pressures are contained.

Real Estate. The residential construction industry remains very weak; however, builders are less pessimistic than earlier in the year. Contractors believe that low interest rates and tax credits for first-time buyers may contribute to a broader sales uptick in the coming months. Nonetheless, an industry turnaround will not occur until consumer confidence improves significantly and excess inventory is pared down. Two contacts noted that they are waiting for federal stimulus money to begin construction of low-income housing. Little change in list prices of new homes was noted, though some builders are discounting, especially for older spec houses. We continue to see some downward pressure on building material prices, particularly for lumber. General contractors reported that they are now operating with skeleton crews.

Reports on commercial and industrial construction activity were mixed. A couple of builders said that their business is down due in part to intense bidding competition. Others characterized business as good and said they are slowly adding to their backlogs. Market segments cited as showing some stability were education, healthcare, and public works. Although obtaining project financing remains a big concern industrywide, most respondents are guardedly optimistic in their outlook for the remainder of 2009. Construction material prices continue to decline, while subcontractors are readily available at very competitive rates. We did not hear any reports of layoffs.

Consumer Spending. February sales for District retailers showed a slight improvement on a month-over-month basis. However, most survey respondents expect sales will flatten out or decline during the second quarter of 2009. On balance, there has been little change in vendor or retail pricing since our last report. Accounts from auto dealers indicate that in most regions of the District, the precipitous drop in sales of new vehicles is leveling off, while purchases of used vehicles improved. Dealers are slightly more optimistic about future sales, but they are not expecting an industry turnaround during the next few months. Almost all of our auto contacts indicated that they are not having any difficulty obtaining floor-plan financing. On the whole, there has been little change in staffing levels at retailers and auto dealers. However, we heard several reports that pay plans are being changed to commission-based. Capital expenditures by retailers have been trimmed back significantly from 2008 levels.

Banking. Regional bankers reported that commercial and industrial lending is down, while C&I loan portfolios at community banks are expanding. Several community bankers commented that they continue to siphon business from regional competitors. On the consumer side, loan demand is best characterized as moderate, but steady. Most activity focuses around home equity lines of credit and indirect auto loans, especially for used vehicles. Consumer loan pricing showed little change. Refinancing applications for residential mortgages remain strong as interest rates fall. Core deposits showed strong growth across most of the product spectrum. Banks' interest margins are decidedly mixed. Credit quality for consumer and business loan applicants is mixed but leaning toward the downside. At the same time, the number of loan delinquencies has increased slightly. Almost all of our respondents said that they have not tightened credit standards since our last report. Major regional banks continue to cut a large number of workers, while staffing levels at community banks are stable to increasing slightly.

Energy. Energy production was stable to increasing during the past six weeks. Looking forward, little change in coal production is anticipated, although demand is weakening. Oil and gas production is expected to increase slightly; nevertheless, a majority of our respondents told us that they anticipate a substantial reduction in drilling activity. Reports indicate considerable downward pressure on spot and contract prices for natural gas and coal. At the same time, materials and equipment costs continue to fall. Half of our contacts said that capital expenditures fell below projections, and most intend to lower spending during the next few months. Energy producers participating in credit markets reported no difficulty in obtaining financing for long-term or short-term uses. Employment levels were stable, and no wage pressure was reported.

Transportation. Freight transport executives reported that the sharp drop in shipping volume, which began in the fourth quarter of 2008, is showing some signs of leveling off. Nonetheless, February shipments declined, on average, about 20 percent on a year-over-year basis, and were spread across all market segments. Expectations call for activity to remain at current levels or to contract somewhat further during 2009. Several of our respondents noted that profit margins continue to shrink as shipping rates become increasingly competitive. Little change in capital spending was reported; though most companies have reduced expenditures to the replacement level. Further, trucking companies are trying to reduce their fleet size, while the market for used trucks has contracted significantly. Transport executives participating in credit markets noted that they experienced little or no difficulty in obtaining financing for long-term or short-term uses. On the whole, the industry is shedding jobs. However, some executives said there may be a limited amount of seasonal callback in the upcoming months.

FIFTH DISTRICT–RICHMOND

Overview. On balance, the Fifth District economy softened further in recent weeks, although business contacts were beginning to provide scattered positive reports. Commercial real estate sales were sluggish and vacancy rates increased; on the other hand, some contacts observed moderate increases in leasing activity. Residential lending edged higher, largely due to increased demand for refinancing. Contacts also reported some pickup in home sales. Retail sales were down overall, particularly for big-ticket items such as automobiles, although a few retailers noted slightly increased sales and shopper traffic. Revenues at services firms generally decreased, as did average service sector wages and employment. Meanwhile, demand for manufactured goods remained weak, inventories continued to grow, and both raw materials and finished goods prices began to fall. Temporary employment agents continued to report weak demand for workers.

Retail. According to most contacts, retail sales declined since our last report, particularly for big-ticket items. However, a few retailers reported that sales had stabilized or increased in the last two weeks. Retail contacts said they continued to respond to slow demand by keeping their inventories low. A West Virginia car dealer told us “sales are a challenge,” and in order to better respond to changing demand, his business began maintaining a 30- to 60-day inventory instead of the usual 120- to 180-day inventory. Sales of automobiles and light trucks continued to slump across the District, for which several dealers blamed a lack of credit for potential buyers. Although some merchants reported stable wages, average retail wages generally declined and retail employment dropped. An executive at a chain hardware store was expecting a wage freeze at his stores in coming weeks and a home and garden supplies retailer in Tidewater, Virginia reduced employee hours and eliminated employer matching funds for the 401(k) accounts. Retail price growth slowed slightly since our last report.

Services. Revenues at services firms fell overall in recent weeks, although several contacts indicated steady or slightly stronger demand. A contact at a payroll services firm in Maryland said his business was in “survival mode.” Businesses related to construction continued to struggle. A principal at an architecture and engineering firm in central North Carolina said financing remained a problem for new building projects. At a coastal South Carolina commercial interiors firm, a contact noted that no new work was waiting and “no one is seeking proposals.” Employment and average wages at services businesses declined in recent weeks. Contacts at hospitals and healthcare systems indicated that hiring was frozen for administrative personnel, while a family fitness center executive in central North Carolina told us his organization had offset falling revenues by laying off some employees and instituting wage reductions for those who remained. Price growth in the service sector inched up slightly.

Manufacturing. District manufacturers reported that production remained weak in March. A manufacturer of automotive components in South Carolina told us that he had seen “catastrophic” reductions in orders due to widespread decline in industry demand. A producer of residential doors in North Carolina observed that his firm was experiencing a “total lack of orders” and that competition was resorting to unreasonably low pricing in order to obtain business. In addition, a primary metals manufacturer in South Carolina noted sluggish orders and dramatic downward pricing that eroded profitability and devalued inventory. He also indicated that many customers were unable to obtain operating credit lines. An electrical components producer in Maryland laid off employees in order to cut costs and predicted more layoffs if business continued to stagnate. Likewise, a contact at a paper company in North Carolina told us his plant was idled with little hope for being restarted unless the economy turns around quickly. A number of lumber companies in North Carolina and West Virginia reported operating in “survival mode” as more lumber firms went out of business, inventories flooded the market, and prices continued to drop. Survey evidence also indicated that raw materials and finished goods prices had fallen since our last report.

Trade activity at District ports continued to soften in recent weeks. Contacts reported that the volume of both imported and exported goods had decreased about 20 percent from a year ago. Declines were fairly uniform, according to port officials, with “everything off right now.”

Finance. Residential lending activity rose modestly in March and early April. According to contacts, demand for refinances remained “hard to keep up with” and the process was taking longer than usual due to more stringent appraisals and thorough underwriting. Purchase activity rose slightly, but only accounted for roughly 25 to 35 percent of business by some contacts’ estimates. Changes in credit standards varied. While some banks made no changes in recent weeks, others reported fewer to zero exceptions on guidelines and an increase in required FICO scores. On the commercial side, loan demand picked up a bit since our last report. Contacts noted an increased interest in education and medical related projects, as well as an uptick in refinances for commercial mortgages. Credit standards were unchanged at some institutions but tighter at others as lenders reported scrutinizing prices and credit worthiness more heavily in order to more accurately assess risk. Contacts also noted broad-based weakness in commercial client portfolios – a contrast from previous downturns when stress tended to be more industry specific.

Real Estate. Residential Realtors in the District generally reported a modest pickup in home sales since our last report, although sales remained at a subdued level. A Richmond, Va., contact reported a significant increase in the movement of higher-priced homes in March as well as an increase in offers contingent upon buyers selling their existing homes. For the first time in a while, a Fairfax, Va., agent reported seeing multiple offers on the same properties as people began to sense that now is the time to buy. A contact in Greensboro, N.C., also reported increased activity, with more than 180 showings in one recent weekend. And in Odenton, Md., a Realtor said they "made their grade" in sales. In contrast, several agents reported only seasonal increases in activity with sales still down since last year. A Charlotte, N.C., agent told us that while the tax credit for first time homebuyers helped, she had 14 months worth of inventory in the month of February. In Washington, D.C., sales activity decreased 40 percent from last year. House prices fell across much of the District.

Commercial real estate markets remained soft in recent weeks, although contacts in Baltimore, Md., Greenville, S.C., Columbia, S.C., and Charleston, S.C., reported slight upticks in leasing activity since our last report. However, the size of completed transactions was down about 50 percent according to a Baltimore contact, and elsewhere in the District the pace of leasing activity was unchanged or slowed further. Asking rents declined in the Baltimore, Washington, D.C., Norfolk, Va., Greenville and Charleston areas, and tenant concessions remained prevalent. Landlords were reportedly conserving cash by offering free rent in favor of tenant improvements. Vacancy rates crept up in parts of the District and were expected to rise in other areas as agents reported business closings and more space available for sublease. Commercial sales were sluggish through March, due in part to the limited availability of financing. In addition, only highly motivated sellers were listing properties. Sales prices moved lower in Baltimore, Washington D.C., Raleigh, N.C., Charlotte, and Columbia as owners were "beginning to get realistic" and having "to take what they can get."

Tourism. Assessments of tourist activity varied since our last report. Along the coast, contacts noted somewhat weaker bookings compared to our last report and to a year ago. An analyst from Myrtle Beach told us that the booking cycle had shortened considerably and indicated that many hotels were offering double-digit discounts for summer business. Managers at mountain resorts in Virginia and West Virginia, however, said their ski seasons were comparable to last year and bookings for the Easter weekend were looking good. In addition, expected overall attendance at the annual National Cherry Blossom Festival in Washington D.C., remained strong. Initial reports suggested that approximately 1 million people will show up for the festival this year. Consequently, hotel bookings in the nation's capital were only three percent below normal. In contrast, booking rates for other destinations were down about 20 percent.

Temporary Employment. Fifth District temporary employment agents continued to report generally weak demand for workers in recent weeks. However, employment contacts in Raleigh, N.C., told us that they were optimistic for an uptick in demand for temporary workers both because of new businesses and because they were beginning to see increased confidence from the corporate community. Throughout the District, workers in higher level IT and office support, and those with industry-specific technical skills, were some of the most sought after. Wages remained generally unchanged.

Agriculture. Widespread rainfall coupled with scattered snow showers in March improved soil moisture while replenishing streams, reservoirs, irrigation ponds, and livestock ponds. Agricultural analysts in Virginia told us that some of the state's hardest-hit regions from the previous year's drought were showing signs of recovery. On the other hand, wet fields also delayed spring planting activity across most of the District. The planting of cabbage and Irish potatoes in North Carolina, and corn in South Carolina were behind schedule. Moreover, an early March snowfall in Virginia damaged some ornamental crops and hindered the growth of forages in the southwestern area of the state. Pastures were reported to be in generally fair-to-good condition in South Carolina and Virginia but in poor-to-fair condition in North Carolina and West Virginia.

SIXTH DISTRICT – ATLANTA

Summary. Sixth District business contacts reported that economic activity remained weak in March. Information from retail and auto industry contacts suggested sales declined, whereas reports on tourist activity were mixed. The outlook among commercial construction industry contacts worsened as vacancy rates continued to rise. However, residential real estate contacts noted modest sales improvements in several areas. Also, while manufacturing contacts noted that production and orders remained very low, their outlook was less pessimistic than last reported. Banking contacts remarked that business and consumer loan demand remained weak while access to credit remained tight. Labor market conditions worsened as more businesses reported layoffs. Price pressures remained subdued throughout the District.

Consumer Spending and Tourism. District merchants continued to report declining sales and traffic in March compared with a year earlier. Retailers noted difficulty in forecasting sales, planning orders, and managing inventory levels because of the unclear demand outlook and uncertain credit availability. Auto dealers also noted that tight credit was affecting sales. Ongoing reductions in vehicle assemblies was said to have reduced some of the pressure on dealer inventories.

Reports on tourism activity in the District were mixed. Convention cancellations, lower attendance, and tighter spending patterns were negatively impacting several locations. However, cruise lines experienced strong bookings as a result of heavy discounting and promotional incentives. Visitor numbers were described as being relatively strong at some popular drive-to destinations, including several theme parks.

Real Estate and Construction. Reports from Realtors indicated that existing home sales remained weak in March, but in some areas, sales were up on a year-over-year basis, most notably in Florida. New home sales were described as weak, but inventories reportedly declined slightly in March as homebuilders reduced construction further. Some District homebuilders did note a modest increase in buyer interest, along with considerable downward pressure on prices. Housing starts remained at weak levels and the outlook among builders continued to be pessimistic because of high inventories. However, recent improvements in traffic bolstered sales expectations among most Realtor contacts.

Commercial real estate activity remained weak. Vacancy rates continued to rise in many parts of the District, putting downward pressure on rents, most notably in the retail sector. District commercial contractors reported more projects being postponed. Going forward, commercial real estate contacts anticipate more space will become vacant in the coming months and that construction will continue to slow.

Manufacturing and Transportation. The majority of regional manufacturers noted reduced production compared with a year earlier. However, new factory orders, while still well below their year-ago pace, were not as weak as in previous reports. In addition, most contacts were less pessimistic about future production and employment levels.

District transportation reports pointed to ongoing weak freight activity in March compared with a year earlier. Auto, chemical, and construction-related rail shipments declined further. Trucking contacts servicing the retail industry noted much lower tonnage than a year earlier and intense pricing pressure.

Banking and Finance. District lending conditions remained tight in March. Most bankers cited a lack of loan demand, uncertain collateral values, and tighter credit standards as factors restraining the current lending market. Businesses and consumers appeared to be reluctant to take on additional debt in the current environment. Commercial borrowers, in particular, were said to be postponing capital expenditures.

Employment and Prices. Employment conditions in the District deteriorated further in March and the number of workers filing for unemployment insurance increased. In addition to increased layoffs, business contacts noted reductions in hours worked and cuts in wages as tools to reduce business costs.

Significant price discounting was noted at the retail level, and manufacturing and construction firms continued to report that prices for both raw materials and finished goods were below year-earlier levels. Energy prices were relatively stable in March.

Natural Resources and Agriculture. Reports from District contacts indicated that oil and natural gas inventories remained high in March as consumers and manufacturers reduced energy use. The decline in energy demand has caused regional producers to cut back or idle operations. Soil moisture conditions improved in most areas of the District. However, relatively dry conditions were reported in areas of Florida.

Weak domestic and global demand continued to trouble the near-term outlook for the District's farm sector.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District contracted further in March, but the pace of decline slowed from the previous reporting period. Consumer spending improved some and the pace of business spending was little changed. Construction and manufacturing activity continued to be weak, and labor market conditions deteriorated further. Credit conditions remained tight for many firms. Price and wage pressures tilted toward the downside. Agricultural prices were mixed, as prices for major crops moved up while livestock prices moved down.

Consumer spending. Consumer spending improved slightly in March. Retailers reported that promotions and discounts had a small, positive impact on sales as customers remained price conscious. Sales performance varied widely across categories of goods, with luxury and big-ticket items continuing to decline while necessities, fast-food, and consumer electronics fared better. Contacts also noted retailers remained cautious in ordering due to their desire to keep inventories lean. Auto dealers, for example, continued to hold back on orders to keep vehicle inventory levels in line with the low level of sales. However, dealers also noted an increase in showroom traffic and stronger sales toward the end of March on the basis of expanded incentive programs and the ability of a larger number of potential buyers to qualify for financing. Furthermore, contacts noted that the recent decision by GMAC to expand retail credit and ease wholesale finance charges should help support sales and inventories. Nonetheless, contacts still reported that, on balance, floor-plan financing remains difficult to obtain and poses a major challenge for dealerships.

Business spending. The pace of business spending was little changed in March. Contacts generally reported that they were limiting capital expenditures given uncertainty over the near-term outlook. However, reports from industries that have been less affected by the current downturn, such as fast-food and pharmaceuticals, indicated that capital expenditures were continuing as planned. Labor market conditions in the District continued to deteriorate. Additional layoffs were reported, although several contacts again indicated that they were trying to avoid layoffs and retain skilled labor by using reductions in hours. Hiring activity remained low outside of the healthcare and pharmaceutical industries; but a contact noted that even in the former, hours have been reduced for non-patient related staff. In contrast, a contact cited some hiring in response to the boom in mortgage refinancing activity in March. A staffing firm reported a slower pace of decline in the use of their services; however, the typical seasonal pick-up in activity had not taken place for them as firms were cautious to expand their work force at this time.

Construction/real estate. Construction activity in the District remained weak. Residential construction was minimal, as housing inventory in the District remained elevated. However, several contacts noted an increase in showroom traffic in recent weeks. Few mortgage originations reflected new purchases, but declining mortgage rates renewed the boom in refinancing. Contacts also reported higher demand for home equity loans, but declining home values and tighter credit standards limited the availability of credit. Nonresidential development and construction declined from the previous reporting period, although contacts reported a slight increase in public infrastructure activity. Contacts also noted that demand for refinancing of existing projects was on the rise. Property values were declining sharply, as vacancy rates and available sublease space continued to increase in the District, particularly in the retail sector. Contacts also reported a decline in rents as landlords were granting tenant requests to renegotiate leases in order to avoid vacancy. Residential and commercial construction contacts both cited limited credit availability for new projects as the primary reason for an increasing number of project delays.

Manufacturing. Manufacturing activity in the District continued to fall, but the pace of decline slowed in March. Activity in the domestic steel industry improved slightly from the previous reporting period, but remained very low. Other metals-related industries also noted weak business conditions. The demand for aircraft, heavy trucks and equipment and appliances declined. Exporters noted a further broad-based weakening of demand from abroad. Several manufacturers reported increases in deferral requests and cancellations of orders, some of which were attributable to the deteriorating credit condition of customers. In contrast, several contacts reported a reduction in inventory pressures. A contact also cited continued strength in demand for pharmaceutical products. Automakers reported further plans to cut back on production in order to control inventories. However, they were optimistic about the late-March surge in sales and the number of direct support programs being put in place by governments around the world. Uncertainty over the state of the domestic automakers and tight credit conditions remained a drag on auto suppliers. Contacts were hopeful of the impact of the government's recent assistance to the industry, but liquidity remained a concern for Tier-2 and Tier-3 suppliers.

Banking/finance. Credit conditions remained tight for many firms. A contact indicated that corporate financing costs had moved lower after peaking in early March, but remained above where they were in early February. Banking contacts noted that the pullback on capital expenditures by firms waiting to see signs of a recovery continued to limit loan demand. Credit availability for smaller businesses remained low given the difficulty in meeting covenants due to weak economic conditions. In contrast, a contact indicated that requests from auto dealers and suppliers for amendments to loan covenants had leveled off in recent weeks. Consumer loan quality was also noted to have deteriorated, with payment delinquency on the rise and requests for loan modifications higher in March. Contacts were optimistic about the Fed's Term Asset-backed Loan Facility restoring credit availability for auto loans. However, a contact expressed concern about the possible addition of legacy commercial mortgage backed securities to this facility given rapidly deteriorating loan quality in this sector.

Prices/costs. In general, input prices declined in March. Notably, the prices of steel and scrap both declined. However, contacts noted increases in oil-derived goods and in concrete, although the latter increase was less than had been expected. Price declines continued in retail trade, particularly for apparel, but the squeeze on margins was less as the rate of wholesale price increases slowed. A contact noted that retail promotions and discounts are likely to continue into the spring. Wage pressures continued to tilt toward the downside, with several contacts noting pay cuts or freezes and reductions in non-wage compensation. However, a staffing firm reported that downward pressure on pay rates had moderated in recent weeks.

Agriculture. Relative to 2008, farmers in the District intend to plant fewer acres of corn and slightly more acres of soybeans this year. In recent weeks, much of the District received above average moisture, delaying field work. Fertilizer applications were already behind due to the late harvest last fall and the high cost of fertilizer which led farmers to delay planting decisions. However, fertilizer and other input costs have since fallen, helping farmers obtain credit for the upcoming crop season. Corn prices edged up during the reporting period, while soybean prices dipped before recovering. Farmers continued to own a lot more corn and soybeans than a year ago. Milk, hog, and cattle prices were lower. The dairy situation was described as "ugly" by a contact, with low milk prices triggering the Milk Income Loss Contract program. Extra hogs and cattle headed for slaughter, which pressured markets for meat, although lower feed costs helped offset lost revenues for livestock producers.

Eighth District - St. Louis

Summary

The economy of the Eighth District has weakened further since our previous report. Overall manufacturing activity declined and contacts' reports indicate slowing activity in the services sector. Reports on retail sales across the District were mixed. Auto dealers reported a decline in sales and a few dealerships have closed their doors. Home sales and residential construction continue to be weak throughout the District. Reports from commercial and industrial real estate contacts indicated a continued slowdown in economic activity. Overall lending at a sample of small and mid-sized banks increased slightly during the first quarter of 2009.

Manufacturing and Other Business Activity

Manufacturing activity has continued to decline in most areas since our previous survey. Several manufacturers reported plans to reduce operations and lay off workers, while a smaller number of contacts reported plans to open plants and expand operations. Firms in the rubber products, steel, electrical equipment, industrial materials handling, aluminum products, and appliance manufacturing industries announced job losses. Firms in the automotive and transportation product manufacturing industries also announced job cuts. A major firm in animal processing and slaughtering closed its plant. Several firms in the wood product, aluminum product, and electrical machinery manufacturing industries also closed plants. In contrast, a firm in food manufacturing reported plans to open a new production plant, and several firms in the plastic and wood product manufacturing industries plan to increase operations and hire additional workers.

The District's service sector also has continued to decline in most industries since our previous report. Firms in information and medical services reduced their payrolls. A firm in warehousing and transportation services and a large national retailer closed their operations. In contrast, a contact in the financial services industry and a few firms in the business support services industry reported plans to expand their operations and hire additional workers. Reports on retail sales across the District remain mixed, with an equal number of contacts expressing optimism for the future as other contacts expressed concerns over low traffic volume. Auto dealers generally reported a decline in sales, with a few dealerships closing their doors. One contact expressed concern that showroom traffic is up, but that it is difficult for buyers to qualify for financing.

Real Estate and Construction

Home sales continued to decline throughout the Eighth District. Compared with the same period in 2008, February 2009 residential sales were down by 14 percent in St. Louis, 22 percent in Little Rock, 30 percent in Louisville, and 32 percent in Memphis. Residential construction has also continued to decline throughout the District. February 2009 single-family housing permits fell in nearly all District metro areas compared with the same period in 2008. Permits declined by 43 percent in Little Rock, 48 percent in Louisville, 49 percent in St. Louis, and 56 percent in Memphis.

Commercial real estate and construction markets are declining throughout the District. One contact in Memphis described commercial real estate conditions as very poor. A large construction company in southern Indiana reported that business has slowed considerably. Industrial real estate and construction contacts reported a challenging economic environment. One contact in St. Louis noted that demand for industrial real estate is waning and that the market is currently overbuilt. A contact in Memphis noted a decline in demand for industrial distribution space and did not expect to see any new construction in the industrial market until mid-2010. In contrast, a contact in south-central Kentucky reported that commercial building permits are stable as a result of several projects in downtown Bowling Green and at Western Kentucky University.

Banking and Finance

Overall lending activity for the first quarter of 2009 increased slightly relative to the fourth quarter of 2008. Total loans outstanding at a sample of small and mid-sized District banks increased by 0.1 percent during the first quarter of 2009. Lending activity in various sectors was mixed, however. Real estate lending, which makes up roughly 73 percent of total loans, was essentially unchanged. Commercial and industrial loans, accounting for over 17 percent of total loans, decreased by nearly 2 percent. Loans to individuals, accounting for 5.5 percent of total loans, increased by over 5 percent. All other loans increased by nearly 3 percent. Total deposits increased by nearly 2 percent for the first quarter of 2009.

Agriculture and Natural Resources

Total winter wheat acreage in 2009 decreased by 35 percent from 2008 levels, and most of each District state's crop was reported to be in fair or better condition. Farmers in the District reported that they expect to plant 1 percent more acres of corn and 12 percent more acres of rice in 2009 than in 2008. In contrast, they anticipate planting 43 percent fewer acres of sorghum, 9 percent fewer acres of cotton, and 5 percent fewer acres of tobacco than last year. They expect to plant the same number of acres of soybeans as last year.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy contracted further since the last report. Activity dropped in consumer spending, tourism, services, construction and real estate, manufacturing, energy and mining. However, agricultural conditions improved. Employment continued to decline. Wage increases were modest, with some pay freezes reported. Prices were generally level during the reporting period, as some price decreases continued to moderate.

Consumer Spending and Tourism

Overall retail sales were lower than a year ago. A major Minneapolis-based retailer reported that same-store sales in February were down 4 percent compared with a year earlier, and a major Minnesota-based electronics retailer reported that recent same-store sales fell nearly 5 percent. A mall manager in Montana reported that sales were slow in February compared to a year ago and picked up only marginally in March. Recent sales were down 10 percent at a Minneapolis-St. Paul area restaurant chain from the same period last year. In contrast, February comparable-store sales were up slightly at a North Dakota mall from a year ago.

A representative of an auto dealers association in Minnesota noted that car sales saw a seasonal bounce this spring; nevertheless, sales at many dealerships were more than 30 percent lower than last year.

Tourism was down slightly compared with a year ago. In the Upper Peninsula of Michigan, lodging tax receipts during the winter season were down more than 10 percent from a year earlier, according to an official. In contrast, a Minnesota-based travel agency said that sales for leisure travel were up 5 percent in early 2009 compared with a year ago; however, corporate travel dropped from last year, as some companies have placed a freeze on travel.

Services

Services sector activity decreased overall since the last report. Architects reported very weak demand for nongovernmental projects. Various professional services firms reported that customers are delaying payment and asking for price reductions. Contacts from the information technology, education and medical sectors reported slightly increased activity. Appraisers and mortgage companies noted continued strength in the refinance business.

Construction and real estate

Commercial construction slowed. February nonresidential permits fell by a third in value in Sioux Falls, S.D., from a year earlier. A developer in Minneapolis-St. Paul said several projects there have been canceled or put on hold. Residential construction remained slow. The value of housing permits in the Minneapolis-St. Paul area was down 44 percent in March from a year ago. February residential permits declined in Rochester, Minn., and Fargo, N.D.

Commercial real estate market conditions were stagnant. A contact at a Minneapolis commercial real estate firm said potential tenants are holding off on leasing decisions due to uncertainty about future conditions. Residential real estate markets were mixed. Recent weeks have seen increases in home sales in Minneapolis-St. Paul from last year's lows; however, sale prices remain lower. A real estate agent in Fargo, N.D., said market conditions there were stable, though late-March flooding put activity on hold. The market for high-end homes in the Flathead Valley area of Montana has fallen sharply, shown by a record high level of inventory and declining prices.

Manufacturing

Manufacturing activity decreased since the last report. A March survey of purchasing managers by Creighton University (Omaha, Neb.) indicated that activity declined sharply in Minnesota and the Dakotas. A broad base of manufacturers cut back on production due to very weak orders. A diversified manufacturer noted huge declines in every segment except the municipal market.

Energy and Mining

Activity in the energy and mining sectors fell significantly since the last report. Late March oil and gas exploration tumbled from mid-February. However, several wind energy projects are moving forward. District iron ore production fell, as several mines announced plans to shut down temporarily. However, a Montana gold mine is "going strong," according to an official.

Agriculture

Agricultural conditions improved since the last report. Farmers and ranchers noted decreased input costs for diesel, fertilizer and some chemicals. Due in part to higher sugar prices, farmers in the district intend to plant more sugarbeets this year. However, they plan to plant less wheat, corn and soybeans in 2009 compared with 2008.

Employment, Wages and Prices

Employment continued to decline. In February employment was down 3.1 percent and 3.3 percent, respectively, in Minnesota and Wisconsin compared with a year ago. Unemployment rates reached 25-year highs in those states. Employment levels were also down in Montana and South Dakota, but more modestly, while year-over-year employment levels were slightly positive in North Dakota. A manufacturer recently announced plans to lay off several hundred employees in Minnesota. In western Wisconsin, a company that makes components for diesel engines announced layoffs of almost 130 workers. As the oil drilling boom in western North Dakota and eastern Montana recently waned in response to lower oil prices, hundreds of people have lost their jobs at least temporarily, according to a representative of the North Dakota Petroleum Council. February claims for unemployment insurance were up over 90 percent in Minnesota compared with a year ago. A staffing company survey of businesses in the Minneapolis-St. Paul area showed that as many respondents plan to hire workers as plan to lay off workers during the second quarter.

In contrast, a local economic development official in Rochester, Minn., noted that the area's large health care sector remained relatively solid, which has helped keep the area's unemployment rate lower than the state's. In addition, a sawmill recently restarted in Montana, reinstating almost all of the mill's 130 employees.

Wage increases were modest, with some pay freezes reported. A union that represents faculty at Minnesota's community and technical colleges recently tentatively agreed to a two-year salary freeze. A Minneapolis area health care provider announced a wage freeze for most of its noncontract employees. According to respondents to a recent St. Cloud (Minn.) Area Business Outlook Survey, 21 percent expect to increase employee compensation over the next six months, while 6 percent expect to decrease compensation; last year 37 percent expected increases, while 2 percent expected decreases.

Prices were generally level during the reporting period, as some price decreases continued to moderate since the last report. Minnesota gasoline prices at the end of March inched up about 10 cents a gallon since mid-February, but were $1.14 less than a year ago. Lumber prices continued to decrease since the last report and were almost 10 percent lower than a year ago. A number of copper, steel and aluminum product prices continued to decline slightly. In addition, fertilizer prices softened since the last report.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy continued to decline in March, but showed some tentative signs of stabilization. Consumer spending and manufacturing activity fell at a slower pace, and residential real estate activity and agriculture were steady. In addition, fewer business contacts than in previous surveys expected further declines in economic activity. By contrast, the commercial real estate sector weakened further, energy activity dropped sharply, and bankers reported lower loan demand and expectations of weakening loan quality. Price pressures eased further, and wage pressures remained low due to weakness in the labor market.

Consumer Spending. Consumer spending eased slightly in March and expectations remained subdued, but some contacts reported modest improvement. Excluding autos, retail sales were fairly level in March, though activity still remained well below a year ago and expectations were relatively flat. Store managers reported sluggish sales in most categories, particularly electronics, and noted a continued lack of consumer confidence. Store inventories rose slightly from the previous month, but most contacts expected a decrease in the months ahead. Auto sales continued to decline sharply, though more dealers than in previous surveys expected some improvements in future months. Several contacts noted high demand for used cars and for service and parts maintenance. Travel and tourism activity remained sluggish, with several hotel contacts reporting less business travel. Nearly all tourism contacts expected a further slowdown in travel activity. Restaurant traffic edged up slightly from the previous survey, though activity continued to be relatively sluggish.

Manufacturing and Other Services. Manufacturing activity declined at a slower pace in March than in previous surveys. Overall production fell less at both durable and non-durable-goods producing plants. Some plant managers reported a slight upturn in shipments, new orders, and order backlogs, but many firms continued to reduce inventories in response to sluggish demand. Expectations for future factory activity rose marginally, but capital spending and hiring plans remained largely on hold. The majority of contacts reported few difficulties obtaining credit. Transportation services activity was generally sluggish, but contacts continued to express some optimism about future months. Capital spending plans strengthened over the previous month, and one trucking company noted a recent upturn in commercial and residential moving business. High-tech services firms reported mostly stable business conditions, and were generally positive about the months ahead. However, one business noted the lack of access to long-term debt had forced a hold on its capital investment plans.

Real Estate and Construction. Residential real estate activity steadied somewhat in March, while the downturn in commercial real estate activity continued. Home sales rose slightly from the previous survey, and expectations for future sales also improved, though activity remained well below year-ago levels. The increases were attributed to lower mortgage rates and new tax credits related to housing. Real estate agents reported solid demand for lower-priced homes and foreclosed properties. Home inventory levels fell slightly, and were expected to remain stable in the coming months. Mortgage origination loans increased sharply, with home refinances particularly strong. In contrast, residential construction activity slowed further, and several contacts reported especially tight credit conditions for construction loans. Commercial real estate activity continued to deteriorate across the District, with few improvements expected in the near future. Vacancy rates rose further, and the decline in rental rates continued. Most contacts cited continued difficulties obtaining financing for large commercial projects.

Banking. Bankers reported a decline in loan demand, an increase in deposits, and a slightly more pessimistic outlook for loan quality since the last survey. The fraction of banks reporting lower overall loan demand was somewhat smaller than in the previous survey. Demand continued to fall for commercial and industrial loans and commercial real estate loans. However, demand for consumer installment loans was little changed, and demand for residential real estate loans increased for the second survey in a row. Some banks reported tighter credit standards, especially on commercial and industrial loans and commercial real estate loans.

However, the fraction of banks tightening standards was lower than in previous surveys. Assessments of current loan quality were about the same as in the last survey, but expectations for future loan quality were a little more pessimistic. A substantial fraction of banks reported increases in deposits, and some banks attributed the inflows to a flight to safety.

Energy. Energy activity weakened sharply in March. Nearly all contacts reported a decrease in drilling activity and were pessimistic about the months ahead. While oil prices have rebounded somewhat, natural gas prices remained depressed, with no upturn expected in the near future. Several producers noted sharp cuts in their labor force, particularly for field positions, and one producer commented on the increased cost of credit to finance large projects.

Agriculture. District agricultural conditions held steady since the last survey period. While most of the wheat crop in Nebraska remained in good condition, some crop deterioration was reported in dry and windy areas of Kansas and Oklahoma. Recent rain and snow in the southern Plains, however, could relieve some of the stress on the wheat crop by boosting soil moisture levels. District contacts reported little change in crop mix compared to last year. Livestock producers continued to be challenged by low cattle and hog prices and weak export markets. Reduced farm income limited capital spending and carry-over debt remained elevated. Demand for high quality farmland was solid, but sales of marginal farmland dropped sharply.

Wages and Prices. Price pressures eased further, and wage pressures remained limited due to soft labor markets. Manufacturers reported a continued decline in raw materials prices, though slightly more producers than in previous surveys planned to raise selling prices in the future. Overall retail prices edged down from the previous survey, and most contacts expected prices to fall further in coming months. Only a small number of firms reported labor shortages, resulting in minimal wage pressures. Several contacts, particularly in the energy industry, reported considerable reductions in their workforce.

ELEVENTH DISTRICT—DALLAS

Economic conditions in the Eleventh District remained weak from mid-February to the end of March. Contacts across a broad range of industries including manufacturing, retail, residential construction and financial activities reported that they were seeing signs of stabilizing at low levels. Other industries, such as oil and gas extraction, employment services and intermodal transportation noted sharp declines. Financial services continued to report low lending activity due to weak demand and tight credit standards. Drought conditions and low margins continue to put a financial strain on District farmers and ranchers.

Prices. Most contacts reported continued downward price pressures. Retail contacts said that prices of some items like apparel were flat but many food and some plastic items were declining in price. Service industries such as accounting and legal services said they were having difficulty resisting customer demands for lower prices and several noted some recent discounting. Transportation service contacts noted falling prices, particularly airlines. Many manufacturing contacts reported price declines, with some sharp declines in industries tied to construction.

Prices for light sweet crude were near $40 per barrel in late February, but rose to over $50 per barrel in late March. Contacts said that much of the increase seemed to be driven by news of additional fiscal and monetary stimulus and data indicating greater stability in the economy. Natural gas prices fell under $4 per thousand cubic feet for the first time since 2002, but moved back over $4 as crude prices rose and economic news improved. Respondents felt that fundamentals remained negative, however, with winter ending and weak industrial demand, steady production, ample inventories and a forecast of cool summer weather.

Labor Market. Labor markets remained weak, although a growing number of respondents are holding employment levels flat rather than cutting further. Many respondents noted that they had already cut and that they were trying to hold on to key personnel. The main exceptions were energy extraction, real estate, construction and manufacturing which have all experienced further layoffs. Many companies reported hiring freezes and very little, if any, wage increases.

Manufacturing. Most manufacturing contacts reported that after several months of sharp declines, demand is starting to flatten at low levels. Most reported that they have kept inventories tight.

Most construction-related manufacturers reported that after another sharp decline in February, orders flattened out in March. An exception was the fabricated metals industry which reported a sharp decline in orders over the past 30 days. Many construction-related contacts reported very low levels of capacity utilization with some firms reporting levels below 50 percent. Several reported temporary plant shutdowns and continued layoffs. Most contacts expected the current weakness to persist throughout 2009 with residential starts showing no improvement and non-residential construction continuing to weaken.

High-tech manufacturers reported that after steep declines in February, demand has started to “bounce across the bottom.” Semiconductor contacts reported that conditions are particularly weak in memory chips which will likely experience an L-shaped recovery with an extended bottom while logic chips should see a U-shaped recovery. Demand has been particularly weak for producers of equipment used in chip production with sales down by two-thirds to three-fourths from two years ago. High-tech manufacturers report that they have been able to keep inventories low so that when demand begins to increase it will translate quickly into increased production. One respondent noted that the current downturn in high-tech is much worse than the high-tech recession in 2001.

Paper producers reported that demand has flattened since the last survey. Some contacts reported that employment has stabilized after significant cutbacks last year. Inventories were mixed with some contacts reporting desired lean levels and some reporting excess inventories. Most contacts expect demand to improve near year-end.

Petrochemical producers generally indicated that the free fall of late last year is over and there was growing stability and even a small turnaround in operating rates. Contacts reported that ethylene and a number of other chemical and plastic products have clearly bottomed out after massive industry destocking last fall. Contacts said that no one is buying inputs without an order in hand, leaving demand still erratic and unpredictable. Operating rates are slowly moving up however, from 70 to 75 percent.

Refinery capacity utilization remained weak and near 82 percent, but part of the weakness was due to normal spring turnaround and maintenance, and the switch from heating oil to gasoline production. The demand for distillates (diesel and heating oil) fell seasonally, and prices along with it. Refinery margins improved from the very low levels early in the year, but are still depressed.

Retail Sales. Retail contacts reported that sales have flattened out since the last survey. Most retailers that focus on discretionary items report that year-over-year sales are down from about five to twelve percent. Luxury items continue to suffer the most while food and necessities are doing better. Contacts also note a continued switch to lower-priced private label brands. Most retail store contacts expect demand to remain near current levels through much of this year.

Auto dealers reported generally flat sales over the past six weeks, with year-over-year demand down about 40 percent. Sales continued to be weak for both domestic and imported brands. Respondents reported that while credit remains tight, the major factor suppressing demand was low consumer confidence due to job losses, loss of household wealth, and uncertainty about the economic outlook. Most expect continued weakness through the end of the year.

Services. Staffing firms reported continued weak demand. Many of their clients are laying off workers and are thus not renewing contracts on current personnel. New orders are down sharply for both direct placements and contract work. Demand is reported to be very weak across industries with the exception of a slight uptick in orders for sales professionals and some increase in finance personnel due to the recent rise in refinance activity, loss mitigation and collections work. The outlook remains weak and uncertain.

Demand for legal services continued to soften. Contacts reported that demand continued to be concentrated in litigation and bankruptcy, while there is little corporate, real estate, or transactional demand. While demand for bankruptcy-related services has increased slightly since last Beige Book, it has not yet increased as much as contacts expected at this point in the recession. According to contacts, if litigation and bankruptcy don't pick up as they normally do, "it's going to be ugly." Legal demand that had been coming from abroad is still very tight or basically cut off. Demand for accounting services is steady and continues to be concentrated in tax and audit. Both legal and accounting firms expect growth to be essentially flat this year and noted that receivables are harder to collect.

Airline demand has weakened slightly over the past six weeks with demand weakening the most for business travelers and international flights. Contacts said that they are dropping fares in response to lower demand and lower fuel prices. Contacts in container trade and intermodal transportation report that cargo volumes have been down over the last 30 days. Declines in both domestic and international activity have contributed to the fall off. One exception is small parcels. On a seasonally adjusted basis, small parcel growth has been improving since last October. The pick-up has been led by express air volumes, although ground volumes have also improved somewhat since January. Contacts in rail transportation said that there has been some pickup in demand in the past six weeks. Significant volume increases were observed in motor vehicle shipments, although the pickup followed a sharp decrease in the beginning of the year when many auto plants were temporarily shut down. Pronounced declines were seen in shipments of lumber and wood and in non-metallic minerals.

Construction and Real Estate. Eleventh District housing conditions remain weak, but contacts are more optimistic about the spring selling season than they were at the end of 2008. Home sales remain well below year-ago levels, but respondents noted that homebuyer traffic was better than expected. There were scattered reports of downward price pressures in some areas with rising foreclosures but overall, contacts said home prices in most Texas metros are holding up much better than in other areas of the country. Single-family housing starts continued to decline as builders endure a "painful decrease in home production." Several contacts noted that smaller builders continue to shut their doors as financing becomes more of a problem in the face of slow sales and little cash flow. A very high inventory of developed lots is causing financial problems for lot developers and banks as lots are re-priced, according to respondents. Outlooks remain grim for 2009, but most contacts expect conditions to begin to improve in 2010.

Apartment leasing activity steadied in the first quarter after a dismal fourth quarter. Despite the better than expected demand, contacts say occupancy rates and rents will soften in coming months due to the high volume of construction activity in the pipeline. Rent cuts are already prevalent in the Austin area where demand is weak and new projects continue to be completed.

Office and industrial leasing activity continues to decline, and rental concessions are rising. Contacts say office sublease space is growing modestly as companies downsize. Commercial real estate investment activity is being hampered by worsening credit availability "that is very close to a complete absence of lenders." Contacts remain very uncertain in their outlooks, but are hopeful recent government initiatives will lead to some improvement in coming months.

Financial Services. A broad range of financial services contacts in the District continue to report slower demand. Real estate deals continue to be scarce with only the very highest quality deals getting done at lower leverage and a smaller size. Respondents report that over ninety percent of the few deals getting done are multifamily, and these deals are only about 10 percent of the volume of a year ago. Due to new NCUA assessments, credit unions have had to rein in their competitive pricing and feel somewhat more restrained.

Contacts reported that commercial real estate loans are basically nonexistent and maturing loans are being renewed at lower leverage/size, while some are not eligible to be renewed. Contacts have seen a continued slowdown in consumer loan demand with credit card purchase volume falling.

Contacts have continued to see some deterioration in credit quality and report maintaining tight credit standards. Contacts have also continued to price loans off LIBOR or set floors on the prime rate. Deposits are relatively stable, but difficult to grow due to short-term interest rates essentially at zero. Outlooks remain weak although most contacts were slightly more optimistic compared to the last survey.

Energy. The demand for oil services and drilling equipment continues to shrink with the rig count. Over the past six weeks the number of U.S. working rigs is down by 300 or 22 percent. Texas, New Mexico and Louisiana all had significant losses, especially Texas which lost 168 rigs - over half the national total. Respondents indicated that a number of natural gas wells drilled in nonconventional shale are cased and will be re-entered when natural gas prices improve, and will give a quick and large boost to supplies.

Agriculture. Drought conditions persisted across much of the District despite recent rains. The lack of sufficient moisture has been of particular concern to cattle producers, and many ranchers have been forced to cull their herds because of poor pasture conditions, low water supplies and high feed costs. Farmers are holding back on planting crops especially in the dryland areas, and plantings of cotton and sorghum were slightly behind normal. Milk prices have fallen well below production costs leading to financial losses and culling of dairy cow herds. On the beef cattle side, the feedlot industry continues to struggle due to high feed costs and low cattle prices, a result of the ongoing drought and weak demand.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District continued to slow during the survey period of late February through early April, albeit with tentative signs of stabilization or a slower rate of decline evident in some sectors. Upward price pressures eased further, and upward wage pressures remained virtually nonexistent. Retailers reported generally sluggish sales and a continued shift towards less expensive items, and demand for services softened further. Demand remained extremely weak for manufactured products on net, although slight firming was reported for information technology products. Demand held largely steady for agricultural producers but fell further for oil extractors. Activity in District housing markets stayed feeble, and demand for commercial real estate continued to decline. Contacts from financial institutions reported that overall loan demand weakened further and credit availability remained quite tight.

Wages and Prices

Upward pressures on prices eased further during the survey period, despite recent increases in oil prices. Other than oil, commodity prices in general remained largely stable or declined further. Vigorous discounting continued to hold down the final prices for a wide variety of retail items, and the prices of selected services fell during the survey period, most notably for transportation, lodging, and selected professional services such as accounting.

Upward wage pressures remained virtually nonexistent overall. Contacts in many sectors continued to report that they have frozen or cut wages and reduced benefit costs, for example by increasing employee copayments on medical expenses covered by employer health plans. Unemployment rose further, and companies with open positions reported significant increases in the quantity and quality of job applicants, further reducing upward pressures on wages.

Retail Trade and Services

Retail sales remained very weak on net, with the exception of inexpensive necessities. Department stores and specialized retail stores saw continued dismal sales, with further declines noted in some cases. However, consumers' focus on necessities, such as food and health products, prompted modest sales gains for some discount chains. Sales strengthened a bit further for grocers, and they and other retailers noted a pronounced demand shift from brand name to less expensive private-label products. Demand remained anemic for furniture, appliances, and electronic items. While demand for new automobiles continued to be feeble, sales strengthened further for used vehicles, especially large pickups and SUVs. Unit sales of gasoline have firmed and were running slightly above their levels from 12 months earlier.

Demand for services fell further since the last survey period. Restaurants throughout the District continued to see their business drop, resulting in more layoffs and closures. Providers of health-care services saw further declines in activity. For providers of professional services such as accounting, business consulting, and legal services, demand continued to decline, and further layoffs were noted. Demand for transportation services dropped substantially in recent months, with container traffic at ports reported to be down on the order of 20 percent compared with 12 months earlier. Travel activity in the District continued to fall: in Hawaii, visitor counts and spending remained down by double-digit amounts from12 months earlier, and contacts in California and Nevada also reported pronounced ongoing declines in tourist activity.

Manufacturing

District manufacturing activity remained weak overall during the survey period of late February through early April. Activity for producers of wood products continued to languish, with further curtailments in production and employment reported. Contacts in the metal fabrication industry continued to report very weak demand and extremely low levels of capacity utilization. New orders and sales of semiconductors and other information technology products firmed somewhat, causing inventories to fall, but the pace of sales remained well below the level from 12 months earlier. Production activity continued at high levels for aerospace manufacturers, although ongoing reductions in airline passenger and cargo capacity have started to cause order cancellations and delivery deferrals for new aircraft. Food manufacturers saw further sales gains and continued to operate at high levels of capacity utilization.

Agriculture and Resource-related Industries

Demand was largely unchanged for agricultural producers but weakened further for oil extractors. The pace of sales remained solid for assorted crops and livestock products. Supply conditions generally were favorable as costs fell further for fuel and other agricultural inputs, although drought conditions have prompted farmers to reduce planted acreage in some areas. Oil extractors reported further reductions in global demand and increases in inventories.

Real Estate and Construction

Housing market conditions in the District remained very weak on net despite sustained sales gains in some areas, and demand for commercial real estate fell further from already low levels. Substantial ongoing declines in home prices spurred in part by high rates of foreclosures have combined with low mortgage rates to increase affordability and cause a significant pickup in the pace of home sales in some areas. However, the overall level of new and existing home sales remained very low in most areas, as did construction activity for new homes. Demand for commercial space continued to deteriorate, with some tenants requesting deferrals of lease payments amidst rising vacancy rates. Contacts reported that the lack of available credit has severely constrained construction activity and sales transactions for commercial real estate.

Financial Institutions

District banking contacts reported that lending activity and credit quality continued to weaken during the survey period. Demand for commercial and industrial loans fell further on net; some community banks reported a slight pickup, but the gains were held down by difficulties in securing secondary funding for large loan amounts. Bank lending standards remained very tight, with unusually stringent conditions imposed on many types of loans, and credit quality deteriorated further along with business and household balance sheets.