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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

November 2009

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

NOVEMBER 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 twelve Federal Reserve Districts indicate that economic conditions have generally improved modestly since the last report. Eight Districts indicated some pickup in activity or improvement in conditions, while the remaining four—Philadelphia, Cleveland, Richmond, and Atlanta—reported that conditions were little changed and/or mixed.

Consumer spending was reported to have picked up moderately since the last report, for both general merchandise and vehicles; a number of Districts noted relatively robust sales of used autos. Most Districts indicated that non-auto retailers were holding lean inventories going into the holiday season. Tourism activity varied across Districts. Manufacturing conditions were said to be, on balance, steady to moderately improving across most of the country, while conditions in the nonfinancial service sector generally strengthened somewhat, though with some variation across Districts and across industries. Residential real estate conditions were somewhat improved from very low levels, on balance, led by the lower end of the market. Most Districts reported some pickup in home sales, though prices were generally said to be flat or declining modestly; residential construction was characterized as weak, but some Districts did note some pickup in activity. Commercial real estate markets and construction activity were depicted as very weak and, in many cases, deteriorating.

Financial institutions generally reported steady to weaker loan demand, continued tight credit standards, and steady or deteriorating loan quality. In the agricultural sector, the fall harvest was delayed in the eastern half of the nation due to excessively wet conditions

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during October and early November. Most energy-producing Districts noted a slight uptick in activity in the sector since the last report. Labor market conditions remained weak since the last report, though there were signs of stabilization and scattered signs of improvement. While some Districts reported upward pressure on commodity prices, they saw little or no indication of upward wage pressures or of any significant increase in prices of finished goods.

Consumer Spending and Tourism

Consumer spending strengthened since the last report, with sales of both general merchandise and autos improving across much of the country. Non-auto sales were reported to have picked up in the New York, Philadelphia, Cleveland, Richmond, Atlanta, Kansas City, and San Francisco Districts; sales were described as steady or mixed in the Boston, Chicago, Minneapolis, and Dallas Districts. St. Louis described retail sales as below expectations and down from a year earlier. Auto sales generally improved since the last report, in some cases rebounding from a brief dip after the “cash-for-clunkers” program ended. Increased vehicle sales were reported from New York, Philadelphia, Richmond, Chicago, St. Louis, and Dallas, while sales were described as flat or mixed in the Cleveland, Minneapolis, Kansas City, and San Francisco Districts. A number of Districts reported that used vehicles have been selling better than new ones.

Most Districts also noted that retailers were holding leaner inventories this holiday season, though some indicate that retailers have recently become more optimistic about the holiday-season outlook. Auto dealers’ inventories, largely depleted during the cash-for-clunkers program, have been or are being rebuilt.

Tourism was mixed across those Districts reporting. Travel and tourism—especially leisure travel—was described as robust or improved in the New York, Dallas, and San Francisco Districts. Atlanta and Kansas City characterized tourism as sluggish, while Richmond and Minneapolis described it as mixed; Richmond noted that tourism has been adversely affected by severe and damaging coastal storms, while Kansas City characterized the outlook as “grim.” New York indicated that business travel remained sluggish, but Minneapolis and Dallas note a slight pickup.

Nonfinancial Services

Activity in the service sector generally picked up since the last report, though results were mixed across Districts and across service industries. New York and Philadelphia reported that service-sector activity overall remained steady to up slightly, while St. Louis noted expanding activity. The information technology industry was reported to be showing improvement in the Boston, Minneapolis, and Kansas City Districts. A pickup in activity at staffing firms was reported by Boston and Dallas, whereas New York noted that activity remained sluggish. Strength in health services was noted in the Boston and Richmond Districts. Shipping activity was characterized as flat in the Cleveland, Atlanta, and Kansas City District, while Dallas reports some gain; however, Dallas and Atlanta both noted particular weakness in rail shipping activity. Professional and business support firms reportedly registered some improvement in the St. Louis and Minneapolis Districts but flat to declining activity in Richmond and San Francisco.

Manufacturing

Most Districts reported mixed to moderately improving manufacturing conditions since the last report. New York, Philadelphia, Cleveland, Minneapolis, Kansas City, and San

Francisco all noted modest increases in manufacturing activity within their Districts. Manufacturing conditions in the Boston and Dallas Districts were characterized as mixed, with some improvement noted for biopharmaceuticals companies in Boston and high-tech manufacturing firms in Dallas. By contrast, Richmond and Chicago both reported that manufacturing activity had leveled off since the last report, while activity continued to decline in the Atlanta and St. Louis Districts, although at a somewhat slower pace than the last report. Tighter credit limited the ability of customers to place new orders in the Richmond District, while in the Chicago District, contacts noted a slowdown in the restocking of inventories. Increases in activity related to the transportation industry were cited in the Chicago, St. Louis, Cleveland, and Kansas City Districts, although such activity was mixed in the Dallas District and reported as declining in the San Francisco District. Several Districts noted an uptick in food-related production.

Many Districts reported that their contacts were optimistic about the near-term outlook. Manufacturers in the Boston, New York, Philadelphia, Atlanta, Minneapolis, and Kansas City Districts expected business conditions to improve in the coming months, while producers in the Cleveland District expressed uncertainty about near-term conditions. The outlook in the Dallas District was mixed, with most manufacturers expressing cautious optimism about the near term and construction-related manufacturers expressing pessimism about the future largely due to expectations of prolonged weakness in commercial real estate.

Real Estate and Construction

Home sales and construction activity improved across much of the nation, though prices were generally said to be flat or still declining somewhat. A majority of Districts reported that the lower-priced segment of the housing market has outperformed the high end.

Increases in sales activity were reported in the Boston, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco Districts, whereas sales were described as steady or mixed in the New York and Philadelphia Districts. Multifamily housing markets deteriorated further in the New York and Chicago Districts. More broadly, a number of eastern Districts reported continued declines in home prices—specifically, Boston, New York, Philadelphia, and Richmond. In contrast, prices were said to have firmed somewhat in the Dallas and San Francisco Districts and stabilized in the Chicago and Kansas City Districts. Most reports maintained that the lower end of the market has outperformed the higher end: New York, Philadelphia, Richmond, Atlanta, Minneapolis, and Kansas City all noted relative weakness at the high end of the market, with relative strength at the lower end; in most cases, this strength was largely attributed to the homebuyer tax credit (which was recently reinstated and expanded to include existing owners).

Despite the firming in sales, the level of new residential construction activity was generally characterized as weak, though recent trends have been mixed—Atlanta, Kansas City, and Dallas noted some pickup in home construction, whereas the Chicago and St. Louis Districts reported declines. Residential construction was described as flat or stabilizing by Cleveland, Minneapolis, and San Francisco.

Commercial real estate conditions were widely characterized as weak and, in many cases, deteriorating further. Market conditions were reported to have weakened in virtually all Districts, with rising vacancy rates, downward pressure on rents, and little, if any, new development. Expectations for 2010 were also quite low. Boston characterized the commercial real estate outlook as “bleak,” Dallas noted that construction was at “historically low levels,” and Kansas City described the sector as “distressed.” Still, some Districts noted

scattered signs of encouragement: Cleveland and Chicago referenced public-works projects as a source of increased business, Richmond noted signs of increased leasing activity from the health and education sectors, Atlanta indicated a modest pickup in new development projects, Minneapolis noted some recently started hotel and retail development, and San Francisco cited slight improvement in availability of financing for new development.

Banking and Finance

Banks reported steady to softer conditions in most Districts. Loan demand was said to have weakened in the New York, Philadelphia, Cleveland, St. Louis, Kansas City, and Dallas Districts. New York noted particular weakness in demand for home mortgage loans, whereas Richmond and St. Louis reported this to be the strongest segment of late. For the most part, the weakness appears to have been concentrated in the commercial sector, though Boston and Chicago reported some pickup in commercial real estate lending—largely refinancing. Credit quality showed signs of deteriorating in the New York, Philadelphia, Dallas, and San Francisco Districts but was described as stable or mixed in Cleveland, Chicago, and Kansas City, with Chicago reporting some improvement outside of commercial real estate. Increasingly tight credit standards were reported in the New York, Richmond, Chicago, St. Louis, Dallas, and San Francisco—largely on commercial loans.

Agriculture and Natural Resources

Excessively wet conditions during October and early November were reported in a number of Districts. As a result, the fall harvest was delayed in many parts of the Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Kansas City Districts. Flooding from Tropical Storm Ida and a November “nor’easter” damaged crops and delayed planting throughout the Richmond District, and Virginia health officials closed fishing in all Chesapeake Bay

tributaries and temporarily banned the harvesting of shellfish due to potential storm water contamination. By contrast, rainfall in the Dallas District helped alleviate drought conditions experienced in many parts of the region. Contacts in the Chicago, Minneapolis, and Kansas City Districts noted that corn and soybean prices rallied over the past month, although a wide variation in margins was expected for crop farms due to differences in input costs. Losses for livestock operations occurred in the Chicago and Kansas City Districts.

Most energy-producing Districts reported a slight uptick in activity in extraction industries since the last report. Contacts in the Cleveland, Atlanta, Dallas, Minneapolis, Kansas City, and San Francisco Districts noted steady to increasing oil and natural gas production within their regions, albeit from low levels of production observed earlier this year. Contacts in the Cleveland District also reported that a sharp decline in coal production had leveled out since the last report. In general, oil prices increased somewhat, while reports on the price of natural gas were mixed due in large part to differences in inventory levels across Districts. Mining activity in the Minneapolis District increased.

Employment, Wages and Prices

Labor market conditions remained weak since the last report, with further layoffs, sluggish hiring, and high levels of unemployment in most Districts. However, contacts in the Atlanta, Cleveland, and Richmond Districts reported that the pace of job cuts generally slowed in their regions, and most contacts in the Dallas District reported stable employment levels. Despite generally weak employment conditions, some signs of improvement were noted. For example, contacts in Boston reported that they were beginning to hire and reverse pay cuts or freezes that were implemented earlier in the year, and contacts in the St. Louis District reported that the service sector had started to expand recently. Expectations for the

holiday season were mixed across Districts, with contacts in the New York and Dallas Districts reporting lighter-than-normal seasonal hiring and/or increases in the hours of existing employees, as opposed to hiring temporary workers, to meet the seasonal demand. On the other hand, most retailers in the Richmond District have hired the usual number of seasonal workers this year.

Districts generally reported little or no upward wage pressures, while some Districts noted upward pressure in commodity prices, and most Districts reported stable selling prices. Wages were largely reported to be holding steady in the Boston, Cleveland, Richmond, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco Districts. Most Districts reported stable prices overall, although some reported higher input prices, largely for energy and other commodities used in production, with a limited ability to raise selling prices. Prices were reported as moderately lower in the Kansas City District, and downward price pressures were cited for some professional services and intermodal transportation firms in the Dallas District. Some makers of food products and chemicals in the Philadelphia District reported raising prices, and the prices of computer memory chips continued to firm in the San Francisco District. Retailers in several Districts indicated that they have managed inventory levels in an effort to prevent the steep price discounting that occurred last year, however, some promotional price discounting is expected through the holiday season.

FIRST DISTRICT – BOSTON

Business contacts in the First District cite mixed results amid signs of improvement, although activity generally remains below year-earlier levels. Some respondents are beginning to hire and/or reverse pay cuts or freezes, or planning to in 2010. Prices are generally said to be stable. Contacts in a number of sectors express uncertainty about whether recent improvements will last, but most—outside of commercial real estate—expect recovery to take hold in 2010.

Retail

Contacted retailers in the First District report mixed sales results for the months of October and November. Same-store year-over-year sales growth ranges from negative to positive mid single digits. Respondents reporting positive sales attribute growth in part to consumers looking for deals for the upcoming holidays, while contacts observing softer sales convey concern about the effect of unemployment rates on consumer spending. Several retailers also indicate they believe that notwithstanding some early signs of recovery, consumers are much more cautious today than in previous years, making for a more challenging sales environment. All respondents are cautious in their outlook, although some are more optimistic than others.

Contacts continue to manage inventory levels cautiously, with several retailers reporting lower inventory levels than a year ago. Capital spending remains guarded, but some contacts are taking advantage of favorable opportunities to expand or budgeting for renovations and IT spending. Some First District retailers report increasing headcount in line with new store openings, and others are loosening hiring restrictions. Seasonal hiring is mixed, with some contacts hiring in anticipation of increased holiday sales and others scaling back seasonal hires because they anticipate soft holiday sales. Wages remain mostly steady, although one respondent reports wage cuts were successfully taken in order to prevent a cut in headcount. Selling prices are reportedly stable.

Manufacturing and Related Services

Manufacturing and related services contacts headquartered in the First District cite mixed revenue trends in the third and fourth quarters (to date). Biopharmaceuticals companies indicate that their revenues continue to increase. Some equipment makers report that sales have picked up from their depressed levels in the first half of the year, while others say their business remains in a slump. Respondents across a variety of industries note that sales to retailers, restaurants, and personal services establishments remain depressed.

Manufacturers report that most materials costs and selling prices remain steady. Some firms that cut wages and salaries earlier in 2009 have recently restored pay to pre-cut levels or plan to do so in 2010.

Most contacts say that they have held their domestic headcounts relatively steady in recent months, but biopharmaceutical firms continue to expand employment. Several contacts mention that lower-than-normal attrition is limiting their hiring requirements. Some seeking to fill specialized technical positions indicate they are disappointed with the quality of the applicant pool. For the most part, capital spending remains subdued. Many note that they have adequate cash to fund both needed and discretionary investments.

Most manufacturers and related services providers are anticipating modest to moderate revenue increases over the coming six to 12 months. Some indicate that an uneven economic recovery or secular shifts in their industry are likely to limit their opportunities for growth.

Software and Information Technology Services

First District contacts in software and information technology services report mixed results. Activity remains slow for some firms, while it has improved considerably for others. One contact notes that increased interest among prospective clients is not translating to revenue growth, with companies still hesitant to finalize deals. By contrast, another contact reports strong demand across multiple product lines and various geographies. While some New England software and IT services firms continue to reduce headcounts, others plan to expand their workforces. Those firms that implemented wage freezes this year anticipate lifting them in 2010, with raises expected to be in the 3-percent to 5-percent range. Despite differences in the level of business, the sentiment among all respondents is at least slightly more optimistic than it was last quarter. Although contacts worry about the sustainability of recent improvements, they generally expect the positive momentum to continue into next year. Expectations range from gradual upticks over the course of 2010 to high levels of growth from the start of the year.

Staffing Services

New England staffing contacts report upticks in activity through the end of the third quarter and into the fourth. While year-over-year revenues are still down—from 10 percent to 60 percent—revenues are improving on a sequential basis, with increases reported in billing hours and number of assignments. Labor demand is strong from the health, biopharmaceutical, telesales, and technology industries. Stimulus funds have led to increased demand from the government sector and improvement is noted in the financial and manufacturing industries as well. Demand remains better for temporary hires, with permanent placements seeing at most marginal increases. Several contacts note that overall labor supply is in abundance, while it remains a challenge to fill specialized positions. An elongation of the hiring cycle continues, with employers reviewing more resumes and requiring multiple interviews before making decisions. One contact also reports that more employers are choosing to search for applicants without the help of staffing firms. While First District staffing respondents are increasingly optimistic and suspect the bottom has been reached, they express uncertainty as to whether recent improvements can be maintained through the holidays and winter season. Their outlook remains cautious for the first half of 2010, with some not anticipating sustained growth until the latter half of the year.

Commercial Real Estate

Contacts indicate nearly uniformly that the region's commercial real estate market continued its downward trajectory in recent weeks. Leasing activity is very weak and downward pressure on rents remains intense. A Boston contact reports that landlords are working hard to retain existing tenants, who are driving increasingly hard bargains. Rents for class A Boston office space (downtown) continued to soften in recent weeks and have fallen roughly 30 percent from peak values; even so, cap rates (ratio of operating income to building price) have risen roughly 150 basis points for core properties since the market peak. Vacancy edged up by about a half a percentage point. Sales activity remains scarce, and "the

good buildings are not on the market.” In Hartford, our contact notes that the usual “seasonal bump” that occurs in the fall never materialized this year, and that very little leasing or sales activity took place in recent weeks. However, as reported last time, rents do not appear to be falling precipitously in Hartford. The leasing market slowed in recent weeks also in Rhode Island, where a key concern remains the emerging glut of class B office space in downtown Providence.

A few contacts express concern that recent FDIC guidance on commercial real estate will merely serve to delay, rather than prevent, commercial foreclosures and associated bank losses. In the worst case scenario that some describe, foreclosure events will be concentrated in time (at some point within the next two years), triggering greater financial fallout than if they were spread more evenly. Because they do not expect property values to recover before the coming wave of maturities come due (even taking into account loan extensions), these respondents argue that it is preferable for banks to recognize losses sooner rather than later, or at least to prepare for inevitable losses. On the bright side, two Boston contacts note that the financing environment is somewhat better now than it was six to 12 months ago, at least for high-quality properties. A regional banking contact reports that he has seen a “big uptick” in loan volume in commercial real estate since the end of September. Increased loan demand has come from properties seeking refinancing out of loans previously held by life insurance companies, some of whom are seeking to move such loans off their books.

Contacts agree that the outlook remains bleak for commercial real estate for at least another year and possibly two years, but also point out that uncertainty is high. They reiterate that the key factor leading a recovery will be improvement in the employment situation.

Residential Real Estate

Home sales continue to increase year-over-year across the New England states. Growth was particularly strong in Maine and Rhode Island, where sales rose by more than 20 percent year-over-year in September. Several contacts mention the important influence of the first-time homebuyer tax credit on the rise in sales. The tax credit has since been extended and expanded, but the extension had not yet occurred when these deals were being made, so homebuyers were trying to close their deals before the original deadline of December 1. As a result, much of the September sales activity involved entry-level homes. Year-over-year increases in sales are expected to continue through October and November because of the earlier deadline; in addition, pending sales numbers look promising.

While sales continue to increase, median home prices continue to decline year-over-year in New England. The lone exception is the Boston area, where the median home price in September was up 6 percent from September 2008. In other areas, the median home price dropped between 2 percent and 8 percent year-over-year in September. It is difficult to determine what part of this median price drop can be attributed to increased sales of entry-level homes due to the tax credit. In New England condo markets, sales were up by at least 10 percent year-over-year, and prices were mixed.

While contacts are pleased by the extension of the first-time homebuyer tax credit, some are even more excited about the expansion of the credit to include existing homeowners. Inventory is low in residential real estate markets in Massachusetts and contacts there hope that this broadening of eligibility for the tax credit will help bring sellers back into the market.

SECOND DISTRICT--NEW YORK

The Second District's economy has shown further signs of improvement since the last report, though the labor market remains soft. There are no indications of any significant price pressures. Manufacturing sector contacts report steady to increasing activity and continued improvement in general business conditions, and a large majority remain optimistic about the near-term outlook. Auto dealers report a rebound in sales in recent weeks. General merchandise retailers also say that sales have improved since the last report. There are signs of a pickup in tourism activity in New York City.

Commercial real estate markets—in both the office and industrial categories—have been steady to moderately weaker since the last report. Residential real estate markets have been mixed since the last report, but generally weaker, especially at the high end of the market; New York City's sales and rental markets have been particularly weak. Finally, bankers report rising delinquency rates—particularly on mortgages, both residential and commercial; they also note continued tightening in credit standards, and weaker loan demand.

Consumer Spending

Retail sales showed further signs of picking up in October, though early indications for November are mixed. Non-auto retailers generally report that sales picked up in both September and October and appear to be running on or ahead of plan. Some contacts in upstate New York attribute part of the strength to increased demand from Canadian shoppers. While some contacts say that sales remained fairly buoyant into early November, one mall manager and a major retail chain note some pullback in sales in recent weeks. Inventories are reported to be in good shape and well below comparable 2008 levels; one contact notes that holding lean inventories carries the risk of losing out on sales for items in high demand, because manufacturers and distributors are also keeping inventories low. Prices are reported to be stable, though discounting is not expected to be nearly as steep as in last year's dismal

holiday season. Auto dealers report that sales rebounded briskly in recent weeks, after a brief drop-off once the “cash-for-clunkers” program expired.

Consumer confidence measures declined modestly in October: residents of the Middle Atlantic states (NY, NJ, Pa), hold an increasingly negative view on current conditions, and have recently become a bit less optimistic in their near-term expectations. Similarly, Siena College reports that consumer confidence among New York State residents edged down in both September and October, after reaching its highest level in more than a year in August.

Tourism activity in New York City has picked up since the last report; leisure travel has been increasingly brisk, even as business travel remains sluggish. Manhattan hotels report that occupancy rates exceeded year-earlier levels in both September and October, for the first time in more than a year, though this was mostly attributed to the unusually low levels of the latter part of 2008. More notably, room rates climbed by substantially more than the seasonal norm in September and October, though they are still down 15-20 percent from last year. Bookings for more than a month ahead remain sluggish as visitors seem reluctant to commit in this uncertain environment. Broadway theaters report a pronounced pickup in attendance, as well as revenue, in recent weeks; these measures, respectively, are up roughly 14 and 20 percent from a year ago—a good deal more than in September.

Construction and Real Estate

Commercial real estate markets in the District were again steady to softer since the last report. Manhattan’s office vacancy rate climbed again in October, while asking rents continued to fall and are running 25 percent below comparable 2008 levels; effective rents are reported to have fallen even more steeply—especially when concessions are factored in. Northern New Jersey’s market has been particularly slack, though office markets in Long Island and the northern suburbs appear to be somewhat firmer: in all these markets around New York City, vacancy rates have been relatively steady, while asking rents are running 4-5 percent lower than a year earlier. Office rental markets in upstate New York

are mixed: vacancy and rent data suggest that metropolitan Rochester's market has softened somewhat, while Buffalo's market has been steady to slightly stronger. On the other hand, a commercial real estate firm in western New York State maintains that demand for both office and retail space is weak and that there is virtually no new development activity.

Housing markets have been mixed but, on balance, a bit softer since the last report. Home sales and prices have reportedly weakened moderately in the Buffalo area, in part due to the impending expiration of the [now extended] homebuyer tax credit. Contacts in northern New Jersey report that resale transactions remain low but have picked up a bit, and that selling prices appear to have stabilized at low levels. However, builders have reportedly stepped back on new development as they remain skittish about having excess inventory. New York City's housing market has continued to weaken: while sales activity for existing apartments has rebounded from depressed levels, sales of new units remain very sluggish. Selling prices for existing units are reported to be down roughly 25 percent from a year earlier, with even steeper declines at the high end of the market; weakness at the high end is also evident in northern New Jersey. Developers looking to unload large inventories have begun to auction off condo units with steep discounts—primarily in Brooklyn, but also in the Bronx. New York City's rental market also continues to weaken, with contract rents in Manhattan falling roughly 10 percent over the past 12 months; moreover, when concessions are factored in, the decline in effective rents has been a good deal steeper. On the supply side, one industry expert estimates that nearly 3,000 new rental units have been completed in Manhattan thus far in 2009—roughly double the figure for all of 2008.

Other Business Activity

A major New York City employment agency, specializing in office jobs, reports that hiring remains very sluggish, though recruitment activity has reportedly picked up marginally in the finance and legal sectors. In general, contacts in both manufacturing and other sectors report that employment at their firms has leveled off; whereas a large and growing proportion of manufacturers plans to ramp up

employment in the months ahead, non-manufacturing contacts generally plan to hold their staffing levels steady. Retailers mostly plan on giving existing staff more work hours during the holiday season, as opposed to hiring temporary workers.

Looking at business activity more generally, manufacturing firms in the District report continued growth in business activity in October and early November, and most contacts anticipate further improvement in the months ahead. Non-manufacturing firms indicate that business is generally steady to rising moderately, but they too are fairly optimistic about the near-term outlook. In general, contacts report only modest input price pressures and are holding their own selling prices steady.

Financial Developments

Medium to small-sized banks in the District report decreased demand for all types of loans—particularly residential mortgages—as well as a decrease in refinancing activity. Part, though not all, of this recent weakening appears to be seasonal in nature. Respondents indicate a tightening of credit standards across all loan categories, and to a somewhat more widespread degree than in recent months. No banker reported an easing of credit standards. Bankers note an increase in the spreads of loan rates over costs of funds for all loan categories except residential mortgages, where they report no change. The widening in spreads is most prevalent in the commercial mortgage category. Respondents indicate ongoing declines in average deposit rates. Finally, bankers report increased delinquency rates for all loan categories, but these increases are most widespread in residential mortgage and commercial mortgage segments.

THIRD DISTRICT – PHILADELPHIA

Economic conditions in the Third District have been mixed in recent weeks. Manufacturers, on balance, reported an increase in shipments and a steady rate of new orders. Retailers indicated that sales have been rising slowly, although they remained below the year-ago level for most stores. Motor vehicle dealers indicated that sales have improved somewhat, although dealer closings continued. Third District banks generally reported decreasing loan volume outstanding and further declines in credit quality. Residential real estate agents and home builders noted mostly unchanged sales rates. Nonresidential real estate leasing and construction activity continued to decline. Service-sector firms generally reported that activity continued to be slow. Business firms in the region reported mostly level prices, although some indicated that prices of some basic commodities have increased recently.

The outlook in the Third District business community remained lackluster in November. Manufacturers forecast a rise in shipments and orders during the next six months, on balance, although the balance of positive views has eased in the past month. Retailers have mixed views, but on balance they expect sales for the holiday shopping period this year to roughly match last year. Auto dealers expect sales to improve in the near-term, although they say the number of dealers remaining in business will continue to decline. Bankers anticipate demand for credit to remain weak through the winter. Residential real estate contacts believe housing demand will continue to firm up, but they do not expect a substantial increase in sales until sometime next year. Contacts in nonresidential real estate expect leasing and construction to remain weak well into 2010. Service-sector firms expect activity to remain near current levels in the near term.

Manufacturing

Third District manufacturers reported increases in shipments and new orders, on balance, from October to November, although results varied across the major manufacturing sectors in the region. Increased demand for their products was noted by makers of food products, apparel, furniture, chemicals, and electrical equipment. Declining demand was noted by makers of lumber and wood products, metal and metals products, and industrial materials. Several firms said that the recent increases in business been slight and that the pace of activity remained slow.

As one firm noted, “activity is still down compared with last year,” and another said “even with the slight uptick, activity is still down from the previous high.”

Third District manufacturers expect business conditions to improve during the next six months, on balance. Among the firms polled in November, about half expect new orders and shipments to increase during the next six months; about one-tenth expect decreases. Although the balance of opinion among area manufacturers remains positive, it is slightly less optimistic than it was earlier in the fall. Nevertheless, the number of manufacturing firms planning to increase capital spending plans has risen slightly.

Retail

Third District retailers reported slight increases in sales during October and early November compared with September, although most indicated that sales remained below the year-ago pace. Retailers said consumers appear somewhat more willing to spend, although comments such as “the consumer is focused on basics” and “consumers want good value” were common among area merchants. Although sales have improved for several lines of merchandise, retailers noted sales of big-ticket home goods remained weak.

Most Third District retailers have cautious views of year-end holiday shopping period. Forecasts vary from slight year-over-year increases to small year-over-year declines. Retailers, including those expecting gains, have limited their inventories of merchandise for the holiday period, and many have shifted their merchandise mix to lower-priced items.

Third District auto dealers reported some improvement in sales from September through early November. Dealers said the sales increase, although slight, was widespread across vehicle types. Nevertheless, closings of dealerships continued throughout the region, and more are expected. Looking ahead, dealers foresee continued improvement in sales for those who remain in business.

Finance

Total outstanding loan volume at Third District banks has dipped in recent weeks, according to bankers contacted for this report. Bankers said consumer lending and residential mortgage lending has declined as result of both tighter credit standards and softer loan demand. Many indicated, however, that the drop in commercial lending was mostly due to a decline in

demand. One banker said “we’re calling on prospects but we’re not getting new business” and another said “new loans are not enough to offset pay-downs and pay-offs.” However, despite the efforts to expand business lending, both bankers and business firms noted that there has been a pullback in lending to retailers generally and to firms in some service sectors. Most of the banks contacted for this report said that credit quality continued to deteriorate for all categories of lending, although several indicated that the increase in delinquencies and charge-offs has slowed. Bankers generally expect demand for credit to remain weak over the winter, but some expect a gradual increase in demand to gain strength by the middle of next year.

Real Estate and Construction

Sales of new and existing homes were roughly steady in most parts of the Third District from September into November, according to local real estate agents. They generally indicated that sales of lower-price homes were moving up slightly but sales of higher-price homes continued to be slow. Overall sales remained well below the year-ago level. Selling prices of existing homes continued to move down, although some real estate agents said the decline appeared to be easing. Builders continued to offer incentives on new homes. Looking ahead, real estate agents expect steady or only modestly strengthening home sales. One agent remarked, “just because we’ve hit the bottom doesn’t mean it’s starting to get better.”

Nonresidential real estate firms indicated that leasing and purchase activity has continued to decline and that vacancy rates remain on the rise. Effective rents have been falling significantly, prompting some relocations and lease renegotiations by tenants, but no increases in occupied space. Contacts expect nonresidential real estate markets to remain weak well into next year. One contact said, “markets will remain under stress and uncertainty.”

Services

Service-sector firms generally reported that activity has remained slow since the last Beige Book. Among the region’s business services firms contacted for this report, nearly all indicated that demand for their services has been flat in the past few weeks, although a few said they have had slight gains recently. The region’s service-sector firms see no signs that business will pick up significantly in the near future. As one contact said, “Our clients are showing no inclination to increase spending.”

Prices

Reports on input costs and output prices have been mixed since the last Beige Book. Manufacturing firms noted some increases for the commodities they use but mainly steady prices of the products they make. However, some makers of food products and chemicals have raised prices. Retailers have generally kept their selling prices steady, and several noted that they were realigning product mixes to emphasize lower-priced merchandise.

FOURTH DISTRICT – CLEVELAND

Economic conditions in the Fourth District have shown little change since our last report; overall activity is sluggish and the recovery remains fragile. Reports from factories indicated that production was flat or up slightly, with increases being attributed to new orders and seasonal demand. New home sales proceeded at a slow pace, while commercial and industrial construction was very sluggish. Financing remains a major issue for residential and commercial builders. Sales by District retailers and auto dealers were generally flat. Declines in coal production have leveled out, with oil and gas output holding steady. Reports indicated little change in freight transport volume. Business and consumer lending weakened further, while core deposits continued to grow.

Large scale employment reductions have flattened out across most sectors, with some companies recalling a small number of workers. Staffing firm representatives reported an uptick in job openings across a wide spectrum of industries. Given the weak labor market, wage pressures are contained. We heard many reports of fluctuating commodity prices, especially from manufacturers and food producers. Otherwise, construction materials and product pricing were relatively stable. Capital spending and inventories remain under very tight control.

Manufacturing. Most reports from District factories showed that production was flat or up slightly during the past six weeks, with increases being attributed to new orders and seasonal demand. About half of our contacts told us that production has increased moderately on a year-over-year basis, while others said that factory output remains depressed when compared to year-ago levels. Producers are uncertain about the near-term, and they expect only modest improvements at best. Steel shipments were in line with expectations, though volume reports varied widely. Contacts reporting increased volume attributed it mainly to rebuilding auto inventories. Our steel contacts expect slow growth and are uncertain about which industries will drive demand. District auto production rose modestly during October on a month-over-month basis. Increases are attributed to automakers continuing to restock dealer inventories. Vehicle production (domestic and foreign nameplate) in the District remains well below year-ago levels.

Manufacturers reported that they have either completed rebalancing their inventories or continue to cut back. Capacity utilization is holding steady, but at rates substantially below pre-recession levels. While little incentive exists to invest in capital projects at this time, about a third of our respondents indicated that they would consider increasing spending in 2010 if warranted by more favorable business conditions. We heard many reports of fluctuating commodity prices, especially for metals. However, most affected manufacturers held back on raising their own prices. On net, there was little change in staffing levels, and wage pressures are contained.

Real Estate. Reports show there has been little change in new home construction during the past six weeks, while sales on a year-over-year basis are comparable or up slightly. Purchases of entry-level homes continue to do relatively well, and builders reported some improvement in the move-up category. Looking forward to 2010, contractors see new home construction proceeding at a slow pace. Although builders are somewhat encouraged by the extension of the first-time home buyer tax credit, all of our respondents reported that banks are unwilling to lend any money, especially for spec houses. While most builders have not increased list prices, they are moving away from offering discounts. Construction material costs are steady. General contractors continue to operate with skeleton crews, and many subcontractors are struggling to stay in business.

Commercial and industrial (C&I) construction continues to be very sluggish, though activity in public works projects is relatively stable. Most of our respondents said that business has fallen substantially on a year-over-year basis. Inquiries are coming in at a slow pace, while several builders reported having nearly depleted their backlogs. Looking forward, contractors involved in public works projects are cautiously optimistic, while their C&I counterparts expect very slow activity through mid-2011. We continue to hear numerous accounts of difficulties in obtaining financing, resulting in some projects being postponed or cancelled. On net, there has been little change in construction material costs. About half of our respondents reported reducing employment as they pare down their backlogs. Many subcontractors are struggling to find work and are contracting below cost just to stay busy.

Consumer Spending. District retailers reported that October sales were generally flat or showed a slight improvement. Results of a year-over-year sales comparison were mixed, but tended toward the down side. Consumers continue to focus on purchasing necessities rather than discretionary items and are very price sensitive. Expectations going into 2010 are for sales to remain flat or begin a slow upward trend. Vendor pricing has been relatively stable, while we heard a few reports of rollbacks in store prices and only minor promotional activity. Retail inventories continued on the lean side. Auto dealers said that new-vehicle sales were flat in October and are much slower since the cash-for-clunkers program (C4C) ended. Used-vehicle purchases were characterized as good, if not better, than new-vehicle sales. Vehicle inventories remain low but have improved somewhat since C4C ended. Most dealers expect future sales to track seasonal trends, but at a lower level. Dealers reported that incentives and promotions are less effective than earlier in the year. Difficulty in obtaining financing remains a serious issue for buyers and dealers. There has been little change in staffing levels other than seasonal hiring by retailers and job losses at dealerships that closed.

Banking. Business lending has flattened out or weakened further across most industry sectors. Bankers experiencing increased loan volume attributed it to refinancing existing debt from other institutions. Interest rates and spreads were steady to slightly up. On the consumer side, conventional loan demand was characterized as flat to down, while activity in the residential mortgage market has tapered off a bit. Several of our contacts noted that the share of new purchase mortgage applications is starting to grow. Core deposits continued to experience growth, even though bankers say that they are no longer competing on rates. Lending standards remain very tight, which may negatively impact commercial real estate borrowers seeking to refinance. Reports on the credit quality of business and consumer loan applicants were decidedly mixed. Generally speaking, the number of delinquencies has leveled off or come down somewhat, though several bankers are still seeing an upward trend in delinquencies tied to commercial and residential real estate loans. About half of our respondents said there has been some decline in the number of bank employees, though most of it is through controlled attrition.

Energy. Coal executives reported that the sharp decline in production has flattened out; however, no upturn is expected during the next few months due to large stockpiling and weak demand. Little change in oil and gas output was cited, with production expected to remain steady or begin a slow decline. Reports showed that prices received for oil were up a little, while those for natural gas were down slightly due to abundant supplies. For the most part, the cost of production equipment and materials has leveled off or dropped slightly. Capital expenditures by coal producers remain negligible, while those by oil and gas producers were close to plan. Employment in the oil and gas industry held steady, while coal executives reported some additional workforce reductions. Wage pressures are contained.

Transportation. Freight transport executives reported little change in shipping volume since our last report, with most fluctuations being attributed to seasonal factors. Profit margins remain under pressure. Most of our contacts are uncertain about near-term activity and expect only modest improvements in volume at best. Several noted that the industry needs to cut additional capacity. Rising fuel prices were reported by a majority of trucking companies; however, passing through the increases to customers has been met with a mixed degree of success. Capital spending remains soft, though some pickup is anticipated during 2010. Two trucking executives reported that they are committed to purchasing replacement equipment during the next 12 months. On the labor front, all hiring is for replacement only.

FIFTH DISTRICT—RICHMOND

Overview. The Fifth District economy, on balance, was more mixed than in our last assessment, with housing, retail, and banking activity marginally increasing and most other sectors little changed or contracting. An uptick in retail sales activity was reported, even though most big-ticket sales (with the exception of new and used vehicles) were still down. Service sector revenue declines were less widespread. Manufacturing activity, which was increasing in our last two reports, stalled over the last month, with several contacts concerned that tight credit was limiting the ability of their customers to place orders. Financial sector contacts reported little change in overall lending, but noted some increases in both consumer and small business lending activity. The residential real estate sector continued to benefit from tax credits for home buyers. Commercial real estate saw an increase in business downsizing activity, but that was offset by weakness in other segments of that market. Finally, recent severe weather disrupted tourism, causing widespread hotel cancellations along the Atlantic coast. Flooding also damaged crops and delayed planting. While prices were flat or declining in most sectors, manufacturers noted some increases in commodity based prices.

Retail. Sales ticked up in recent weeks, according to most District retailers. Although big-ticket sales were down overall, new and used vehicle sales edged up, particularly for foreign nameplates. One automobile dealer described the change in his sales as “trickles of improvement,” and most dealers indicated that their inventory was too low because factory production was down. Store managers at discount department stores also reported that sales had picked up slightly—especially sales of toys and electronics—although customer traffic was generally flat. A majority of retailers indicated that they hired their standard number of seasonal employees or were adding hours for current employees. District merchants reported that their inventory levels were about right for expected holiday sales of two percent above a year ago. Merchants anticipated flat sales of gift cards; one store manager expected redemption of gift cards to occur earlier than usual because of the economy. The pace of job cuts generally slowed and average retail wages were little changed, while retail prices edged higher.

Services. Contacts at services firms reported that revenue contraction was less widespread in recent weeks. An executive at a freight trucking establishment said, “We’re seeing some green sprigs out there; we just don’t know yet if it’s grass or weeds.” Demand for healthcare services remained strong, despite a decline in the number of flu cases being treated. A contact at a financial services firm remarked that his clients were “feeling better but there remains an underlying wariness about the markets.” Contacts in the professional, scientific, and technical services sector gave mixed reports on revenues, while sources at administrative and support services firms indicated that revenues were either unchanged or down. Employment, average wage growth, and price change were virtually flat, according to contacts.

Manufacturing. District manufacturing activity flattened in October and the first half of November. Contacts reported that shipments and new orders grew more slowly since our last report, and employment indicators returned to negative territory after being positive for the last two months. Several contacts noted that their customers were having difficulty obtaining credit. A furniture manufacturer reported that his retail customers continued to have credit problems, which was a major concern for his company. Similarly, a textile mill producer said that he had not yet seen reorders from retailers and that credit was very tight for his customers, and a manufacturer noted that his customers could not get financing for wind turbine projects. A producer of machinery indicated that he was starting to see material-based price increases (such as in steel- and petroleum-based goods), while a producer of automobile upholstery said that the increase in demand for automotive parts had consumed much of the excess capacity for raw material production. A door manufacturer observed that competitors continued to fight over any piece of business, resulting in an inability to raise prices to cover higher material costs. Accordingly, contacts reported that prices paid increased at a quicker pace, while finished goods prices changed little.

Finance. Lending activity in the Fifth District was virtually unchanged from our last report, with the residential sector still providing most of the positive news. However, there was also a smattering of encouraging reports from the consumer and commercial sectors. Residential lending continued to be bolstered largely by first-time homebuyers seeking tax credits, with gains often limited to the low end of the housing market. One banker also noted an increase in home equity loan use over the last several months and another reported some improvement in consumer loan delinquencies. A major regional bank reported an uptick in small business loan demand, mostly for financing inventory, but also for a limited amount of plant and equipment spending. Loan demand from large businesses, however, remained mostly stable. Finally, most banks reported no change in credit standards, while a few cited modest tightening.

Real Estate. Real estate agents across much of the District reported further improvements in house sales in recent weeks, and most cited the government's tax credit program as the driving force. A Virginia agent reported very good sales and expected this trend to continue as a result of the extension and expansion of the tax credit program. Likewise, agents in North and South Carolina reported year-over-year sales increases. In contrast, a Richmond Realtor reported a significant drop in house sales, due to the concern that loan approvals would not be completed before the government's tax credit program was expected to expire on November 1. House prices generally continued to decline since our last report. Houses priced in the lower bracket remained the best sellers across much of the District. However, at least one Realtor in Asheville, North Carolina reported middle- and higher-priced houses as among the best sellers in his market.

Fifth District contacts reported that demand for commercial real estate remained depressed over the last month. Several agents noted that inquiries from potential clients often “burn out” quickly due to a lack of confidence in the economy. However, few contacts were seeing conditions actually getting worse since our last assessment, and scattered reports of modest increases in leasing activity were noted. Most of such improvement, however, was limited to downsizing of office and retail space, as lower rental prices and weakness in demand motivated tenants to relocate. Vacancy rates remained high throughout the District and were still rising, but several real estate agents noted some reductions in areas dominated by health and education services.

Tourism. Tourist activity was mixed since our last report, mostly due to severe weather effects in recent weeks. Heavy storms battered coastal areas along the Outer Banks of North Carolina and Virginia during the second week of November, causing damage to some coastal hotels and widespread cancellations of hotel reservations. A contact from the Outer Banks said that a string of approximately 10 oceanfront houses partially collapsed after being pummeled by the surging ocean. Tropical Storm Ida swept away most of the major north-south road on Hatteras Island, which is now accessible only by four-wheel drive vehicles. Bookings on the Outer Banks were expected to be “pretty weak” for the week of the Thanksgiving holiday, as clean-up will require considerable time. In contrast, a manager at a ski resort in Virginia reported that bookings for the Thanksgiving holiday were somewhat stronger than a year ago, and that the recent abundance of rainfall would enhance snowmaking capabilities in early December.

Temporary Employment. Fifth District employment agents reported generally stronger demand for temporary workers in recent weeks. Much of the improvement was based on the anticipation of increased sales over the holidays. In contrast, one contact stated that diminishing company and local government budgets and slower retail demand for merchandise for the upcoming holidays were expected to cause weaker demand for temporary workers. Skills in greatest demand were IT, distribution center workers, sales and office support, and nurses aides/assistants.

Agriculture. Remnants of Tropical Storm Ida coupled with a November “nor’easter” brought heavy rain, strong winds, and flooding over the eastern half of the District. With the exception of West Virginia, fieldwork came to a halt as excessively wet conditions delayed harvest progress in most areas of the District and caused varying degrees of crop damage. In Maryland and North Carolina, wet weather hampered soybean harvesting and wheat planting, while cotton, soybean, and peanut growers in South Carolina expressed concern about quality. In the Virginia Beach area, flooded rivers, ditches, and low-lying fields meant that many recently planted wheat fields needed to be replanted. Virginia health officials closed fishing in all Chesapeake Bay tributaries and temporarily banned harvesting of oysters, clams, and scallops due to potential contamination from storm waters.

SIXTH DISTRICT – ATLANTA

Summary. Economic activity was mixed in October through mid-November, according to reports from Sixth District business contacts. A majority of retailers described activity as exceeding their modest expectations, while tourism-related spending and automobile sales remained weak. However, the outlook for tourism improved as year-end bookings surpassed expectations. Home sales for most District residential real estate markets were above low year-ago levels. New residential construction activity remained minimal and concentrated in lower price points. The District's office and industrial markets worsened as construction levels and rents declined and vacancy rates rose. However, several contacts indicated that commercial construction activity showed signs of bottoming out at low levels. Although overall manufacturing activity continued to decline, the decline moderated and more manufacturing contacts reported improved orders. Bank lending activity continued to be sluggish because of weak demand and tight credit standards. The pace of layoffs in the District slowed, and some businesses reported hiring temporary workers in response to an uptick in activity. Price pressures remained stable and most businesses had no plans of increasing prices in the near term.

Consumer Spending and Tourism. District merchants indicated that retail sales were better-than-expected in October and early November. Businesses continued to keep inventory levels lean, however. The outlook among retailers improved, with over half of respondents anticipating increased sales over the next three months. Auto dealers across much of the District reported dismal sales and traffic compared to their experience during the cash-for-clunkers program over the summer.

Tourism-related spending remained sluggish throughout the District. Industry contacts reported that hotel reservations, particularly related to conventions, were down and room rates continued to decline. Cruise ships remained fully booked because of deep discounts. The outlook for tourism was more optimistic with several reports indicating that year-end and early 2010 bookings were coming in above expectations.

Real Estate and Construction. The majority of District homebuilders and Realtors reported that home sales remained above weak levels from a year earlier in October to mid-November. However, homebuilders reports indicated a modest increase in new home sales, while Realtors said existing home sales were more robust.

Construction activity remained weak overall, but a few Florida homebuilders reported a pickup in activity on a year-over-year basis. The majority of construction activity remained concentrated at lower price points.

Contractors commented on the difficulty in competing with bank-owned homes and lots that continued to enter the market. Realtors noted that the housing stimulus continued to drive sales at the low-end of the market, while sales at the high-end of the market remained weak. Several real estate contacts remarked that qualifying for loans remained challenging. The outlook over the next several months softened somewhat for homebuilders but improved notably among Realtors.

Commercial construction activity continued to decline, but several contractors noted that the amount of projects in development has improved modestly in recent months. Vacancy rates increased and contacts continued to report downward pressure on rents. Declines in net absorption began to abate across much of the District, however.

Manufacturing and Transportation. On balance, District manufacturers indicated that activity declined, although at a slower pace than in previous months. Roughly one-third of manufacturers reported an increase in new orders in October, a modest improvement from the previous month. However, one-third of manufacturers surveyed also reported further reductions in finished inventory levels, while half noted that inventories were unchanged. The outlook for production continued to be modestly positive. Transportation contacts continued to report weak freight demand. Rail industry shipments through mid-November were below year-ago levels for most industry categories.

Banking and Finance. Banks continued to hold credit standards high and the pool of qualified loan applicants remained low. Some financial contacts commented that increased lending was not anticipated given the current economic environment; they were, however, willing to increase lending if loan demand was healthy and credit quality supported the application. Banking contacts remained focused on repairing their balance sheets, making adjustments based more on risk avoidance and asset quality. Some indicated that they were charging higher fees and/or paying lower rates to discourage deposit growth, while others reported limiting CD growth and were working to increase earnings.

Employment and Prices. Layoffs continued throughout the District in October through mid-November, although at a slower pace than in previous months. Firms continued to hire temporary workers in response to increases in business activity, but they remained reluctant to expand their permanent workforce. A few firms noted taking advantage of the increase in talented individuals looking for work to increase the quality of their workforce. Many businesses reported that they are requiring more skills of new hires.

District contacts from a wide variety of industries continued to report stable prices relative to last year. Most businesses reported having little pricing power and felt that they would need to see a sustained increase in sales before raising prices.

Natural Resources and Agriculture. District crude oil production continued to increase moderately in October through mid-November, with the number of rigs operating in the Gulf of Mexico increasing slightly from lows seen in August. Industry contacts reported that demand for petrochemicals continued to stabilize, prompting producers to scale back inventory reductions.

District growers enjoyed improved weather conditions through mid-November, which allowed them to resume normal fieldwork activities. Some Georgia growers were negatively affected by excessive rains.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District edged up in October before leveling off in early November. Contacts generally expected activity to continue to "bounce along the bottom" into 2010. Consumer spending was mixed. Business spending was flat except for an increase in temporary hires. Manufacturing activity benefitted from inventory restocking, but this slowed in November. Commercial real estate conditions deteriorated, but residential real estate conditions continued to improve. Credit conditions, while still tight, improved marginally. Price pressures increased for some commodities, while wage pressures were minimal. Wet weather hampered the harvest even further.

Consumer spending. Consumer spending since the previous reporting period was mixed. Auto sales increased in October, but leveled off in early November. Despite the flattening in sales, auto dealers reported that inventories remained in line with sales. As a whole, retail sales excluding autos were down slightly over the same time period, though sales of clothing and entertainment items improved. In addition, contacts indicated that sales were better than expected at several large retailers. Optimism for the upcoming holiday season increased and contacts reported more interest in big-ticket items like furniture and household appliances. Black Friday promotions were expected to be substantial as customers remained price sensitive.

Business spending. Business spending was little changed from the previous reporting period. Contacts again indicated that they were holding the line on costs, adding inventory solely to replace depleted stocks and limiting capital expenditures and hiring. Labor market conditions remained weak with hiring limited outside of healthcare and education. Unemployment in the District increased. A contact noted that the duration of unemployment spells continued to rise, citing as a factor the growing mismatch between the mostly entry level jobs available and the experience level of unemployed workers in many local areas. In the manufacturing sector, the recent increase in activity resulted in longer hours and temporary hires, but most contacts indicated that permanent labor force additions were not expected. Contacts in retail trade indicated some seasonal hiring was taking place, but at reduced hours. However, a recruitment firm indicated that expectations had improved and some clients had begun planning for future hiring. In addition, a large staffing firm reported that billable hours had increased in recent weeks; most of this was in entry level industrial jobs, but some modest improvement in professional services was also noted.

Construction/real estate. Construction activity decreased in October and early November. Builders indicated that they were maintaining a minimal level of speculative home capacity to meet the current low level of demand, and few expected construction to increase much in 2010. This sentiment seems to contrast with some continuing signs of improvement in residential real estate conditions: namely, stabilizing rents and prices and declining inventories of unsold single-family homes. Contacts indicated that the renewal and expansion of the federal homebuyer tax credit would help to support demand, as home sales slipped prior to the original expiration deadline for the credit. The multifamily housing market, on the other hand, deteriorated further as credit remained very tight for potential buyers of condominiums and townhomes. Demand also continued to be weak for nonresidential construction, with public construction accounting for the vast majority of activity. Competition for stimulus-related projects scheduled to begin in the coming year was indicated to be fierce. Commercial real estate conditions deteriorated again. Vacancy rates increased putting further downward pressure on rents, with owners actively renegotiating lease agreements in order to preserve occupancy.

Manufacturing. Manufacturing activity leveled off from the previous reporting period as the restocking of inventories slowed. Automakers reported that sales in early November were weaker than expected as dealer pricing and customer credit conditions were only marginally better than in October. However, they see demand gradually firming. In addition, inventories are at comfortable levels. Auto suppliers benefitted from the increase in auto sales; although with the rebuilding of auto inventories slowing in early November, contacts reported that orders had flattened. Steel production increased on the basis of strong demand from the auto sector as well as low service center inventories. In contrast, tool and specialty metal manufacturers indicated that their customer's inventories were still elevated, holding back activity. Aerospace remained a bright spot with aircraft manufacturers building inventories. Inventories of heavy machinery remained elevated despite the fact that increased road building was helping to spur demand for construction equipment. Orders for medium and to a lesser degree heavy-duty trucks increased in order to meet pending 2010 EPA admission standards, but overall activity remained quite low. In contrast, demand for pharmaceuticals continued to be strong. Furthermore, favorable terms of trade and rising foreign demand led to export growth, particularly to Asia and South America.

Banking/finance. Credit conditions improved marginally since the previous reporting period. Credit spreads narrowed, but longer-term yields increased leaving net corporate funding costs up slightly for a number of District firms. Banking contacts reported a marginal increase in

VII-3

C&I loan demand, however most of this borrowing was going to refinance or pay off existing debt. Contacts also indicated greater interest in mergers and acquisitions and distressed real estate investment. Lending terms continued to improve, but credit policy remained tight with standards elevated. Credit conditions were particularly tight for residential and commercial developers. Asset quality showed further signs of stabilizing, and some recent improvement was noted outside of commercial real estate. Banks continued the process of deleveraging with contacts indicating that the pool of creditworthy borrowers was not expanding rapidly enough to justify credit expansion. The reluctance of banks to realize expected losses on commercial real estate loans was also cited as a factor holding back the flow of credit. Liquidity in the secondary mortgage market is a concern with the end of the Fed's agency security purchase program nearing and increasingly stringent GSE guidelines for condominiums and townhomes.

Prices/costs. Price pressures increased slightly in October and early November. Contacts cited increases in the price of steel and specialty metals like aluminum, nickel, and copper as well as higher prices for resin, plastics, and lumber. An increase in energy prices was also reported, although natural gas prices remained low. Pass-through of cost pressures to downstream prices was small on balance, as contacts indicated pricing power remained limited. Wage pressures were minimal. However, some contacts noted that they had restored non-wage compensation that they had suspended earlier in the year.

Agriculture. Precipitation continued to hamper the harvest, particularly for corn. Corn harvesting was behind the pace of a year ago, which was a late harvest as well. Toward the end of the reporting period, the soybean harvest neared completion. Comments on corn and soybean yields varied from "so-so" to "better than expected" to "unbelievable." The corn crop was damaged in some areas, and across the District there were other problems caused by wetness. Wet corn strained equipment, leading to an abnormally large number of repairs and shortages of some parts. Moreover, costs were much higher than normal to dry corn for storage and shipment, and there were also shortages of liquid propane for dryers. Elevators were forced to limit the amount of wet corn accepted some days. Corn and soybean prices rallied higher in October and early November. However, margins for crop farms were thought to range from negative to slightly positive. Milk and hog prices were up some, but cattle prices lagged. Losses continued for livestock operations. Expectations increased that financially stressed farmers would be forced to sell or liquidate assets. Higher oil prices assisted the ethanol industry in generating enough income to cover costs.

VIII-1

Eighth District - St. Louis

Summary

Economic activity in the Eighth District remained weak but showed signs of improvement in some areas. Manufacturing activity continued to decline while services activity began to expand in many areas of the District. Compared with a year ago, retail sales declined in October and early November, while auto sales increased over the same period. Residential and commercial real estate market conditions continued to be weak. Overall lending at a sample of large District banks declined in the three-month period ending in October.

Consumer Spending

Contacts reported that retail sales in October and early November were down, on average, over year-earlier levels. About 52 percent of the retailers saw decreases in sales, while 35 percent saw increases and 13 percent saw no changes. About 40 percent of the respondents noted that sales levels met their expectations, 45 percent reported that sales were below expectations, and 15 percent reported sales above expectations. Lower-priced items were strong sellers, while higher-priced items moved more slowly. About 58 percent of the contacts noted that inventories were at desired levels, while 29 percent reported too-high inventories and 13 percent reported too-low inventories. The sales outlook among the retailers for the rest of the year was mixed. About 46 percent of the retailers expect sales for the rest of the year to increase over 2008 levels, while 42 percent expect sales to decrease and 12 percent expect sales to remain unchanged.

Car dealers in the District reported that, compared with last year, sales in October and early November were up, on average. About 39 percent of the car dealers surveyed saw increases in sales, while 39 percent saw decreases and 22 percent saw no changes. About 26 percent of the car dealers noted that used car sales had increased relative to new car sales, while 22 percent reported the opposite. Also, 26 percent reported an increase in low-end vehicle sales relative to high-end vehicle sales, while 13 percent reported the opposite. About 27 percent of the car dealers surveyed reported that their inventories were too low, while 9 percent reported that their inventories were too high. The sales outlook among car

VIII-2

dealers for the rest of the year was also mixed. About 48 percent of the car dealers expect sales for the rest of the year to increase over 2008 levels, but 39 percent expect sales to decrease. The remaining 13 percent expect sales to be similar to last year.

Manufacturing and Other Business Activity

Manufacturing activity has continued to decline since our previous report but at a slower pace. Some contacts expressed optimism that activity would begin to increase in the months ahead. Firms in the rubber tire, packaging product, food and beverage, auto manufacturing, furniture, and plastic product manufacturing industries increased production. Firms in the electrical equipment and component manufacturing and glass/aluminum product manufacturing industries announced plans to open new facilities in the District and hire new workers. In contrast, several firms announced job losses. Contacts in the copper tube, appliance, lumber, and heating, ventilation, and air conditioning manufacturing industries all cited weak demand as a driver of layoffs. Firms in the auto parts and transportation industries closed facilities in the District and announced job losses. A major firm in pharmaceutical products manufacturing announced job layoffs because of a recent merger.

The District's service sector has begun to expand in many areas since our previous report. Contacts in business support services announced plans for several new facilities and new hires in the District. In contrast, some workers in education services experienced pay cuts because of budget deficits.

Real Estate and Construction

Home sales continued to decline throughout the Eighth District. Compared with the same period in 2008, September 2009 year-to-date home sales were down 6 percent in St. Louis, 7 percent in Louisville, 10 percent in Little Rock, and 14 percent in Memphis. Residential construction also continued to decline throughout most of the District. September 2009 year-to-date single-family housing permits fell in most District metro areas compared with the same period in 2008. Permits declined 14 percent in Little Rock, 20 percent in St. Louis, 23 percent in Louisville, and 44 percent in Memphis.

Commercial and industrial real estate markets continued to struggle throughout most of the District. Compared with the second quarter of 2009, third-quarter 2009 industrial vacancy rates increased

VIII-3

in Little Rock, Memphis, and St. Louis and remained the same in Louisville. During the same period, suburban and downtown office vacancy rates decreased in Little Rock, increased in Louisville and St. Louis, and remained the same in Memphis. Contacts throughout the District noted, however, that total available commercial and industrial space is considerably higher than vacancy rates suggest when factoring in sub-leases offered by companies that have reduced staff. Commercial and industrial construction markets continued their decline. A contact in northeast Arkansas reported that commercial construction was very slow, with few projects even in the planning stage. A contact in south central Kentucky noted that overall commercial construction continues to lag behind the number of projects in recent years. A contact in St. Louis reported that industrial construction had fallen sharply compared with the same time last year.

Banking and Finance

A survey of senior loan officers at a sample of large District banks showed a decline in overall lending activity in the three months ending in October. Credit standards for commercial and industrial loans ranged from basically unchanged to tightened somewhat, while demand for these loans ranged from unchanged to moderately weaker. Credit standards for commercial real estate loans tightened, while demand for these loans was moderately weaker. Meanwhile, credit standards for consumer loans remained basically unchanged, while demand for these loans weakened. Demand for residential mortgage loans ranged from moderately stronger to moderately weaker, while credit standards for these loans remained basically unchanged.

Agriculture and Natural Resources

Wet weather throughout the District has caused significant delays in harvesting. The rice harvest was nearly finished in mid-November, but most states were behind normal pace with other crops. In mid-November, each District state was behind normal pace with winter wheat planting and crop growth was even farther behind normal. At least 88 percent of the winter wheat in each state with available data was rated fair or better except in Arkansas, where only three-quarters of the crop achieved that rating.

NINTH DISTRICT--MINNEAPOLIS

Overall economic activity in the Ninth District was up slightly from the time of the last report. The services, manufacturing, energy, mining and residential real estate sectors saw moderate increases. Agriculture and tourism were mixed, while consumer spending was stable. Decreases in activity occurred in commercial construction and real estate. Labor markets remained lackluster, but signs of improvement were noted. Meanwhile, wage increases were modest, and overall prices remained level.

Consumer Spending and Tourism

Overall retail spending was stable. A major Minneapolis-based retailer reported that same-store sales in October were essentially even with a year earlier. While one Minneapolis area mall saw a 2 percent decrease in traffic during October, another saw a 2 percent increase; store owners expect holiday sales to match last year's levels or decrease slightly. Sales at a Montana mall were down slightly in September compared with a year ago; stores have pulled back on inventory going into the holiday season, according to the mall manager. A Minnesota-based restaurant chain reported that patronage has stabilized after heavily discounting its menu. A Minnesota auto dealer reported that vehicle inventories have been built back up following the "cash for clunkers" program; recent new car sales were flat, while used car sales were strong. In southwestern Montana, two new second-hand stores have opened and an existing thrift store is considering expansion.

Tourism conditions were mixed. A Minnesota-based travel agency noted that business travel was up slightly in September and October compared with a year earlier, while leisure travel was down about 20 percent. However, holiday bookings were up slightly compared with last year. Another Minnesota-based travel agency reported that October showed improvement for both business and leisure travel, although levels were still below a year ago.

Construction and Real Estate

Commercial construction was slow. A commercial builder in the Minneapolis-St. Paul area said there were few projects beginning or under way there. Preliminary results of the Minneapolis Fed's business outlook poll indicated that more than 80 percent of overall construction industry respondents expect sales to be down or unchanged in 2010. In contrast, a bank director from Billings, Mont., noted several large retail and hotel project starts in the third quarter. Residential construction showed signs of stabilization. The

value of October permits in Sioux Falls, S.D., was up 4 percent from a year earlier. A \$13 million condominium project began in Escanaba, Mich.

Commercial real estate markets saw continued sluggish activity. A Minneapolis area commercial real estate firm reported that vacancy increased in all sectors in the third quarter, with the largest increases in the office and industrial markets. Retail vacancy increased in markets across the District. Meanwhile, the residential market continued to recover. The dollar volume of closed sales in Minneapolis-St. Paul increased nearly 16 percent in October from a year earlier. Overall sales in Duluth, Minn., were down from a year earlier, but sales of homes under \$150,000 were up as first-time homebuyers took advantage of federal tax credits. In contrast, the high-end home market in western Montana was very slow, according to contacts there.

Services

Overall activity was up in the professional business services sector. Based on results from the business outlook poll, respondents from the services sector expect increased sales in 2010 but decreased investment in equipment. Contacts from information technology and accounting industries noted an upturn in activity over the past three months.

Manufacturing

Manufacturing output was up. Based on results from the business outlook poll, respondents from the manufacturing sector expect increased sales in 2010. Preliminary results of a November manufacturers survey by the Minneapolis Fed and the Minnesota Department of Employment and Economic Development indicated that manufacturers expect increased orders and production in 2010 after low levels in 2009. An October survey of purchasing managers by Creighton University (Omaha, Neb.) showed that manufacturing activity increased in Minnesota and the Dakotas. A gun barrel producer plans to open a new facility in South Dakota. An electric heater maker in North Dakota is slowly increasing production.

Energy and Mining

Activity in the energy and mining sectors increased slightly. Mid-November oil and gas exploration increased from early October. Several District power lines to transport wind energy were planned or under way. Since the last report, an iron ore mine in northern Minnesota restarted a furnace line and increased production.

Agriculture

Agriculture was mixed. The Minneapolis Fed's third-quarter (October) survey of agricultural credit conditions indicated that lenders expect overall agricultural income and spending to be down in the fourth quarter. The harvest is behind the pace of a year ago for most major District crops, and a wet October has created mold problems for some producers. However, production is expected to increase for corn and soybeans from last year's large crop. The U.S. Department of Agriculture increased its estimate of corn and soybean prices.

Employment, Wages and Prices

Labor markets remained lackluster, but signs of improvement were noted. A Minnesota shoe manufacturer recently announced plans to lay off 60 workers after operating at reduced capacity for a number of months. A Minnesota-based staffing services company noted that recent temporary placements in manufacturing firms were down 15 percent compared with a year ago, but demand has recently stabilized. October initial claims for unemployment insurance were 24 percent higher than a year ago in Minnesota.

According to the business outlook poll, 17 percent of respondents expect to increase staffing levels next year while 25 percent expect to decrease staff; a year ago 34 percent expected increases while 21 percent expected decreases.

In contrast, a cleaning products manufacturer was adding 200 sales positions in Minnesota, while another company will create 160 customer service and management jobs over the next six months in South Dakota. Meanwhile, another staffing services firm reported increased requests for workers in the Minneapolis-St. Paul area.

Wage increases were modest. Results of the business outlook poll show that 100 percent of respondents expect wages in their communities to increase no more than 3 percent next year; a majority expect increases of no more than 1 percent. A bank director noted that recent compensation levels in the agricultural industry in eastern Montana and western South Dakota were on par with last year.

Prices remained relatively level. According to the survey of manufacturers, 23 percent of respondents expect to increase their product prices over the next 12 months while 24 percent expect to decrease prices. Bank directors reported that prices for steel, industrial grade lumber and zinc were up, while prices for cattle were down.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy continued to expand modestly in October and early November. Retail sales increased and were expected rise further, but the travel and tourism sector remained weak. Manufacturing activity also grew moderately, with production, new orders, and exports rising since the last survey period. Residential real estate recovered further, while the commercial real estate market continued to deteriorate. Energy activity rose slightly, as higher prices boosted exploration for crude oil in particular. The agricultural outlook also improved with higher commodity prices. On the other hand, District bankers reported that loan demand weakened and loan quality declined. Contacts reported that prices of finished goods and services declined modestly, and no evidence of wage pressures was reported.

Consumer Spending. Consumer spending rose in October and early November, but was supported by heavy price discounting. Most District retailers reported increased sales, especially for mid-priced, durable items such as appliances. Sales of high-priced and luxury items generally continued to decline, although some jewelers reported increased sales. Most retailers reported declines in inventories. Retailers expected sales to strengthen and for prices to steady over the next three months, along with further inventory reductions. Auto dealers reported stability in recent sales activity and were optimistic about their prospects going forward. The market for larger trucks and SUVs was reported as recovering. In the tourism sector, hotel occupancy rates were down markedly compared to year-ago levels, and the outlook was characterized as grim. However, air traffic rebounded somewhat from lower levels during the summer.

Manufacturing and Other Business Activity. District contacts reported that manufacturing production increased moderately in October and November, but production remained well below the previous year's levels. Volume of shipments and new orders also rose, while employment leveled off following a year of decline. Export orders expanded moderately, with more substantial growth expected over the next six months. Expectations for future factory activity were generally optimistic. Sales and capital expenditures in the high-tech services sector grew solidly, and sales were expected to increase more robustly in the near term. Contacts in the

transportation sector also reported increased sales and capital spending. However, one contact said a reduction in the number of competing carriers had allowed some District trucking companies to maintain freight volume despite lower shipping demand overall.

Real Estate and Construction. The residential real estate market showed further signs of recovery in October and early November, but conditions in the commercial real estate market continued to erode. More housing starts and increased traffic from potential buyers were reported by area home builders, while new and existing home sales enjoyed a solid rebound from the previous year's levels, leading to a moderate overall decline in inventories. Inventory reductions, in turn, helped to stabilize home prices in the District, although prices remained below year-ago levels in most areas. Realtors reported that the increase in sales was in large part driven by first-time home buyers taking advantage of the federal tax credit. Sales were strongest for lower-end homes and investor properties, particularly bank-owned foreclosure properties, while sales of luxury homes were anemic. In the commercial real estate market, already low absorption rates continued to fall, putting downward pressure on rents. Construction remained very distressed, although some demand for smaller projects was reported. Sales of commercial real estate continued to decline, pushing down prices, but fewer contacts reported a sales drop than in previous survey periods. District contacts reported that valuations have fallen 20 to 30 percent from their peak in some areas of the District. A number of contacts stated that higher collateral requirements have been impeding smaller businesses engaged in real estate development projects.

Banking. Bankers reported weaker loan demand, increased deposits, and a continued negative outlook for loan quality. Overall loan demand fell at about the same pace as in the previous survey. Demand for commercial and industrial loans fell moderately, and demand for commercial real estate loans edged downward. On the other hand, respondents reported little change in demand for residential real estate loans and consumer installment loans. Some banks continued to tighten credit standards on commercial real estate loans, but credit standards for other loan categories were unchanged. About half of respondents reported lower loan quality than a year ago, an appreciably smaller fraction than in the previous survey. However, well over

a third of banks expect loan quality to decline over the next six months, similar to the previous survey. Deposits continued to rise, with most categories sharing in the increase.

Energy. Responding to continued gains in crude prices and a recent upturn in natural gas prices, energy activity rose slightly in the most recent survey period. However, the rig count remained well below the peak level of mid-2008. Higher crude oil prices also translated into stronger ethanol prices and profits, spurring a rebound in ethanol production. Crude oil prices were expected to build upon recent gains and natural gas prices were expected to edge up over the next three months. But District contacts reported that natural gas production had not declined as significantly as expected given the steep drop in drilling over the last year. The efficiency gains in drilling operations over the past year and the activation of previously drilled but untapped wells was expected to preclude any energy sector employment gains in the near term.

Agriculture. The agricultural outlook improved in October and November with rising commodity prices. Despite reports of above-average corn and soybean yields, grain prices have risen due to improved export activity and a delay in the fall harvest. Wet weather pushed back the fall harvest in all District states and slowed winter wheat planting, especially in Oklahoma. Cattle and hog prices have edged up, but remained below breakeven prices due to rising feed costs. District contacts reported further reductions in livestock supplies through herd liquidations. District bankers reported having ample funds for creditworthy borrowers and expected farmland values to hold steady in coming months.

Wages and Prices. District contacts reported moderately lower prices for finished goods and services and few wage pressures since the last survey period. Purchasing managers said that input prices generally rose, driven by higher commodity prices, and they expected input prices to increase further going forward. Output prices were reported as modestly lower but were expected to stabilize over the next six months. Consumer prices largely decreased as a result of the use of heavy discounting to bolster sales. Hotel rates were down significantly in light of weak demand, but restaurant menu prices were stable. District contacts generally did not report any wage pressures or plans to raise wages in the near term.

ELEVENTH DISTRICT—DALLAS

Overview Economic conditions in the Eleventh District firmed over the past six weeks. Activity improved in several industries—including high-tech manufacturing, paper, petrochemicals, staffing services, housing and energy. Notable exceptions were financial services and commercial real estate, where contacts noted deteriorating conditions. Outlooks are generally more positive in tone, although most respondents do not expect a significant pickup in economic activity in the near term.

Prices Most contacts said prices held steady with a few exceptions. Legal, staffing and accounting service firms noted continued pressure to lower fees. Construction costs continued to decline, and intermodal firms said they have dropped prices to attract new customers. In contrast, retailers said low inventories led to fewer discounts, especially for high-end merchandise. Construction-related manufacturers noted that increases in energy and industrial metals prices were putting pressure on margins.

Crude oil prices rose from \$70 per barrel in early October to near \$80 at the end of the reporting period in mid November. The increase was only partially passed through to refined products such as diesel and heating oil. Natural gas prices were volatile during the reporting period and rose to \$4.50 in mid November. Natural gas inventories continue to rise due to weak industrial demand and unseasonably warm weather. Prices for chemical products were mixed.

Labor Market Most contacts reported stable employment levels noting that they have made the necessary cuts. Still, there were scattered reports of payroll declines from energy and construction-related contacts. Retailers said holiday hiring was lighter-than-normal because of uncertainty surrounding this year's holiday season, and some retail respondents have increased hours of current employees rather than hiring new workers. On a positive note, staffing firms reported improved demand for contract workers, and a few contacts in the transportation service industry noted some hiring. Wage pressures were mostly nonexistent and cuts to 401(k) contributions instituted earlier remained in place.

Manufacturing In general, construction-related manufacturers said demand held flat at low levels, although one housing-related contact said orders weakened. Outlooks were pessimistic, mostly due to expectations of prolonged weakness in commercial real estate.

High-tech manufacturing firms said demand continues to grow at the same or slightly stronger pace since the last Beige Book. Capacity utilization is increasing, and inventories are at or slightly below desired levels. Most contacts were cautiously optimistic about the near term.

Reports from transportation manufacturers were mixed. Orders remained weak for aircraft and parts, but demand for industrial trailers picked up in recent weeks. Industry outlooks in general were more

positive than in previous reports. Respondents in the paper industry said conditions improved over the past six weeks. Corrugated container manufacturers were more optimistic than in previous reports. Food producers noted demand had picked up unexpectedly since the last report, and outlooks were more positive.

Petrochemical demand remained much the same as in the last report. Domestic demand increased moderately, and export demand stayed strong—driven by cheap natural gas versus relatively expensive oil and a weaker dollar. However, exports to Asia softened over the past several weeks. Refiners have cut production due to weaker demand and lower margins for diesel and heating oil.

Retail Reports from retailers point to stabilization, as year-over-year sales comparisons have become less negative. Contacts say high-income consumers spent more over the past six weeks, and value retailers saw better sales of apparel, house-wares and televisions. Still, lower-income consumers remain very price conscious. As in the previous report, Texas sales were tracking the national average. Outlooks were improved, although most contacts remained uncertain about upcoming holiday sales.

Automobile sales improved over the past six weeks after falling sharply at the end of the cash-for-clunkers program. Most contacts expect conditions to remain flat in the near term.

Services Staffing firms say demand continues to tick up and orders are streaming in at a consistent pace. Demand is still largely for contract work, and orders for direct hires are flat at low levels. Although contacts are more upbeat this time around than the last Beige Book, the short-term outlook remains cautiously optimistic.

Demand for legal services remains flat and depressed, with corporate, bankruptcy and litigation work still sluggish. Outlooks are bleak and many contacts expect lower revenues for 2009 compared with last year. Accounting firms say that demand for their services is holding steady at subdued levels, and noted a small uptick in inquiries from clients on merger and acquisition related services.

Intermodal firms reported a slight increase in cargo volumes but said demand is still well below last year's levels. Shipping firms continue to see a broad-based increase in large freight volumes, and said small parcel volumes held steady and were above year-ago levels. Contacts in railroad transportation noted a sizable and widespread decline in shipments since the last report. Airlines report conditions have stabilized. Fares are edging up, and demand for leisure travel has rebounded while that for business travel is slowly improving.

Construction and Real Estate Both new and existing home sales picked up significantly over the past six weeks, although the level of activity remains weak. It remains to be seen whether the increase is due to the first-time homebuyer tax credit or a more sustainable trend. Some contacts said it is likely that the tax credit has accelerated sales that would have occurred in spring 2010. Housing inventories

remain in relatively good shape, and contacts expressed relief that home values appear to be firming, never having fallen as sharply as in other parts of the country. Housing construction continued to edge up.

Commercial real estate conditions remain weak. Demand for existing space continues to fall and rents are trending down. Commercial construction is at historically low levels. On the financial side, contacts noted increased uncertainty about the prospect of renegotiating terms on commercial real estate loans coming due, especially given that the value of collateral has declined. Debt markets remain challenged, but there are signs that conditions may be improving. Contacts said some debt providers are becoming more interested, although they are very selective about assets on which they will lend.

Financial Services Financial services contacts continue to report weak conditions and expect no significant improvement until late 2010 or early 2011. Loan demand softened further over the past six weeks. Commercial real estate lending remains very low and highly scrutinized, and community banks reported a recent pull back in residential real estate lending due to tougher regulatory requirements. Credit quality continued to deteriorate, mostly for consumer loans according to contacts. On a positive note, respondents said there was more liquidity sitting on the sidelines waiting to enter the market, as investors are becoming more interested in good deals.

Energy The Eleventh District rig count continued to rise over the past six weeks. However, contacts remain uncertain in their outlooks, as oil-directed drilling is not expected to carry activity much further. Natural-gas related drilling—while improving—remains weak and inventories are at record levels.

Agriculture Rainfall continues to alleviate drought conditions in many parts of the state. The moisture has improved pastureland and rangeland conditions, halted the sell-off in cattle herds and made cattle producers more optimistic about winter grazing conditions. The winter wheat crop is also benefitting from the precipitation. Although recent rains have been beneficial, they have increased pest problems and damaged the cotton crop in some parts of the state. Harvest of cotton, corn, peanuts and sorghum is moving ahead at a normal pace.

TWELFTH DISTRICT–SAN FRANCISCO**Summary**

Economic activity in the Twelfth District appeared to pick up modestly during the reporting period of late October through late November. Upward pressures on prices and wages were largely absent. Consumer demand remained weak but showed signs of improvement in some retail categories, and demand for services appeared to be little changed on net. Manufacturing activity was mixed but appeared to firm a bit further overall. Agricultural producers reported largely stable sales, while demand remained somewhat weak for providers of energy resources. Demand for housing exhibited further modest improvement, but conditions continued to erode in commercial real estate markets. Banking contacts reported largely stable loan demand and lending standards but further declines in credit quality.

Wages and Prices

Upward price pressures were largely absent during the reporting period. Outside of increases in oil and natural gas, commodity prices in general were stable. Final prices for various retail goods were held down by substantial discounting and promotional activity, and sustained weak demand further reduced the prices for some services, such as professional services and hotel rooms. In contrast, prices for computer memory chips continued to firm, a trend that is expected to persist through the holiday season.

Contacts reported little or no upward wage pressures. High levels of unemployment held down wage pressures throughout the District, and contacts expect this to continue for an extended period as labor demand and hiring remain subdued. Employers in various sectors also have been implementing cost-saving measures such as suspending their 401(k) match and increasing employee contributions for health benefits. Nonetheless, many businesses expect significant increases in the costs of health insurance benefits in the coming year, based on contracted or anticipated rate increases.

Retail Trade and Services

Retail sales remained weak on net, although reports suggested that they were stable or slightly improved compared with the previous reporting period. While consumers continued to focus on necessities and trade down to lower-priced options, contacts noted firmer demand for some nonessential

items, and traditional department stores and discount chains alike reported improvements in sales. Similarly, sellers of furniture and household appliances reported further improvements in demand. New automobile sales remained at very low levels, and sales for used automobiles remained weak, although a limited supply of used vehicles has kept their prices firm. In general, retailers' expectations for holiday sales are somewhat downbeat, with sales expected to be largely unchanged or down from last year's season; as a consequence, inventories of holiday items have been running very lean to date.

Demand for services remained very weak on net. Demand fell further for providers of professional services such as accounting and legal services. Contacts in the restaurant and food services industry noted that demand held largely stable, albeit at a very low level. Similarly, providers of real estate services such as title insurance reported that activity was largely flat at low levels. Conditions remained challenging but showed further signs of improvement in the tourism and leisure sector: contacts in Southern California indicated that the sharp rate of decline in hotel and resort visits is slowing, and contacts in Hawaii continued to report firming in visitor arrivals and hotel occupancy rates.

Manufacturing

District manufacturing activity showed further signs of improvement during the reporting period of late October through late November. Reports from manufacturers of semiconductors and other technology products indicated that demand continued to strengthen, with rising sales and capacity utilization rates noted. Food manufacturers reported that new orders and sales remained strong on a seasonal basis. By contrast, metal fabricators and makers of wood products continued to experience very weak demand, keeping their capacity utilization rates at unusually depressed levels. Refining capacity at petroleum refineries remained well below their five-year average as producers sought to reduce excess inventories. New orders continued to be very weak for makers of commercial aircraft and parts, although ongoing work on the prior backlog has kept deliveries stable.

Agriculture and Resource-related Industries

Demand held largely steady for agricultural products and remained somewhat weak, but with signs of improvement, for providers of natural resources. Sales continued at a solid pace for most types

of agricultural output, including livestock products and assorted crops, and input costs were reported to be largely unchanged. Oil extraction activity has been at low levels but rose somewhat in response to earlier increases in the price of oil. Similarly, as a result of price increases and a resolution of problems with pipeline deliveries in prior months, natural gas extraction activity expanded somewhat, with restarts reported for some previously dormant wells.

Real Estate and Construction

Activity in the District's housing markets continued to improve gradually, while demand for commercial real estate weakened further. The pace of home sales in many areas of the District continued to pick up, and prices in some areas have risen for several consecutive months. However, ongoing increases in the supply of foreclosed properties in some areas have slowed the decline in the inventory of available homes and contributed to builders' decisions to hold construction activity for new homes at very low levels. Conditions in commercial real estate markets deteriorated further, with vacancy rates for office and industrial space increasing in many parts of the District. However, one contact reported slight improvement in the availability of financing for new development and investment transactions, which has been very tight for a prolonged period.

Financial Institutions

District banking contacts reported that loan demand was largely unchanged compared with the prior reporting period. Commercial and industrial loan volumes continued to be held down by businesses' uncertainty about demand and corresponding caution in their capital spending and inventory investments. Demand for consumer loans was stable at low levels. Contacts noted further declines in credit quality, and lending standards remained relatively restrictive for both consumer and business lending, with further tightening reported for commercial real estate loans. By contrast, the availability of venture capital improved a bit, with contacts noting slight upticks in investment amounts and IPO activity.