For use at 2:00 p.m., E.S.T.
Wednesday
December 3, 2008

Summary of Commentary on ____________________

Current Economic Conditions

By Federal Reserve District

December 2008
SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

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Summary*

Overall economic activity weakened across all Federal Reserve Districts since the last report. Districts generally reported decreases in retail sales, and vehicle sales were down significantly in most Districts. Tourism spending was subdued in a number of Districts. Reports on the service sector were generally negative. Manufacturing activity declined in most Districts, and new orders were soft. Nearly all Districts reported weak housing markets characterized by reduced selling prices and low, but stable, sales activity. Commercial real estate markets declined in most Districts. Lending contracted, with many Districts reporting reductions in residential, commercial and industrial lending and tightening lending standards. Agricultural conditions were mixed with a relatively good harvest but concerns about profitability. Mining and energy production and exploration started to soften due to lower output prices.

District reports generally described labor market conditions as weakening. Wage pressures were largely subdued. District reports characterized price pressures as easing in light of some decreases in retail prices and declines in input prices, particularly energy, fuel, and many raw materials and food products.

Consumer Spending and Tourism

Consumer spending weakened during the reporting period. Retail sales were described as weak or down in the New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Dallas and San Francisco Districts. In Kansas City, consumer spending slowed sharply. Recent retail sales were steady compared with early fall but were lower than a year ago in Philadelphia and were mixed in Boston. Some Districts reported decreased purchases of big-ticket items, including furniture, appliances, electronics and luxury items. Discount stores reported stronger sales volumes than department stores. Inventory levels were relatively stable, as many stores anticipated the recent slowdown in sales. District reports indicated that retailers were preparing for a relatively slow holiday sales season. New York noted that this season is likely to feature more price discounting than last year. Boston, Philadelphia, Cleveland and Dallas reported that some retailers have cut back capital expenditure plans for 2009.

District reports indicated that vehicle sales deteriorated since the last report. Sales of more expensive and less fuel efficient vehicles were particularly slow. However, Kansas City noted an increase in demand for used cars. Chicago, St. Louis, Minneapolis, Kansas City and San Francisco reported that a number of car buyers had difficulty obtaining financing.

* Prepared at the Federal Reserve Bank of Minneapolis and based on information collected before November 24, 2008. This document summarizes comments received from business and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.
Tourism activity was relatively slow. Fall tourism was down in New York, Atlanta, Chicago, Minneapolis, Kansas City and San Francisco, while tourism conditions were mixed in Richmond. Kansas City and San Francisco reported slower restaurant business. Atlanta noted that business travel was down, while San Francisco reported a rising incidence of canceled corporate meetings in Southern California. In contrast, reservations at a ski resort in the Richmond District were somewhat stronger for the Thanksgiving and Christmas holidays, and some tourism businesses in the Minneapolis District were cautiously optimistic for the winter season in part due to lower gasoline prices.

**Services**

Activity in the services sector generally contracted in most Districts since the last report. New York, Richmond, Chicago, Minneapolis, Dallas and San Francisco reported deteriorating conditions. Most of these Districts were seeing weakness across a wide range of services, including advertising, architecture, business support, information technology, legal services and temporary help firms. Boston reported mixed conditions for information technology services, ranging from declines of 10 percent to gains of 25 percent. Minneapolis and Dallas reported growing demand for bankruptcy services, and Richmond noted that telecommunications and CPA firms were facing strong demand.

**Manufacturing**

Manufacturing activity declined noticeably since the last report. All 12 Districts reported weaker manufacturing conditions, to varying extents. Boston, Philadelphia, Cleveland, Richmond and Kansas City reported reductions in orders. Almost all Districts noted reductions in exports. Philadelphia, Cleveland, Richmond, Chicago and Atlanta reported lower shipping volumes. Dallas reported weakness in most forms of transportation. Nearly every District reported decreased demand for construction materials; Cleveland and Chicago noted, in particular, decreased steel production. Several Districts reported multiple plant shut-downs, and expectations for capital expenditure were down. A few sectors saw increased activity. Boston, Chicago, St. Louis and San Francisco noted stronger demand for aerospace manufacturers. St. Louis, Dallas and San Francisco reported increases in food processing.

**Real Estate and Construction**

Residential real estate continued at a slow pace nationwide. Sales were down in most Districts, but mixed activity was noted in the Boston, Atlanta and Minneapolis Districts. Boston, New York, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City and Dallas noted decreases in housing prices. Inventories of unsold homes remained high in the New York, Atlanta, Kansas City and San Francisco Districts, but declined in Chicago and Minneapolis.
Philadelphia, Richmond, Chicago and Kansas City reported relatively stronger demand for lower- and middle-priced “starter homes.”

Commercial real estate markets weakened broadly. Vacancy rates rose in Boston, New York, Richmond, Chicago, Kansas City and San Francisco, but were mixed across markets in the St. Louis District. Leasing activity was down in almost all Districts. Rents fell in the Boston, New York and Kansas City Districts. Despite reductions in construction materials costs, commercial building activity declined in many Districts with tighter credit conditions as a factor.

**Banking and Finance**

Business and consumer lending activity continued to slow in most Districts. New York reported weakening loan demand in all categories, while Kansas City and San Francisco also witnessed substantial lending declines. Lending activity in other Districts was mixed among loan categories. In contrast, Philadelphia indicated that its banks saw loan volume rise in November, and some regional banks reported picking up new business borrowers. Cleveland reported that business loan volume has been steady to higher, and some bankers reported actively marketing their loan business.

Credit standards rose across the nation, with several Districts noting increases in loan delinquencies and defaults, especially in the real estate sector. Credit conditions remained tight. Chicago reported that FDIC actions and Federal Reserve lending had improved liquidity and slowed deposit outflows. Dallas indicated that government capital investments have led larger institutions to feel less constrained in their lending, while some smaller banks reported that scrutiny from regulators was making new deals more difficult to forge.

**Agriculture and Natural Resources**

Districts reported mixed results in agriculture. Chicago, St. Louis, Minneapolis, Kansas City and Dallas expected decent harvests. However, Richmond, Chicago and Minneapolis reported delays in harvests due to wet weather. Atlanta, Chicago, Minneapolis, Kansas City, Dallas and San Francisco reported decreases in several crop and/or cattle prices. Chicago, Kansas City, Dallas and San Francisco noted that cattle producers’ profits were squeezed. Tightening credit conditions for agricultural producers were noted in the Kansas City, Dallas and San Francisco Districts. The bankruptcy of a large ethanol producer created uncertainty for crop producers near its Midwest plants.

Activity in the energy and mining sectors decreased since the last report. Atlanta, Minneapolis, Kansas City, Dallas and San Francisco reported softening in oil and gas activity due to lower prices and, in some cases, weather disruptions. Meanwhile, mining activity decreased in the Minneapolis District.
Labor Markets

Signs of labor market slowing were evident in several District reports. Boston, Richmond, Chicago and Dallas reported that demand for temporary staff decreased. Boston and Cleveland noted that seasonal hiring has been scaled back at retail stores. Several businesses in the Atlanta District reported that layoffs accelerated and hours declined. Chicago noted that further weakness in the demand for labor was expected in a number of sectors. Dallas reported that job cuts were particularly pronounced in the manufacturing sector. San Francisco reported job cuts and hiring freezes across a wide range of industries. However, demand for skilled labor remained strong in Chicago, contacts in Boston reported difficulty filling open positions in some professions and Minneapolis cited difficulty finding skilled workers in some areas.

Wage pressures were largely subdued. Richmond reported that wages for temporary employment remained unchanged, while wages in the retail sector declined. Aside from health care and other high-skill technical positions, most contacts in Atlanta suggested that wage pressures continued to diminish. Business operators in the Minneapolis District indicated that they expect only modest wage increases in their communities during 2009. Chicago, Kansas City and Dallas reported minimal wage pressures. In San Francisco, the region’s few open positions have been attracting large numbers of applicants, thereby alleviating upward wage pressures.

Prices

District reports characterized price pressures as easing in light of some decreases in retail prices and declines in input prices, particularly for energy, fuel, and many raw materials and food products. In the New York District, firms across a wide range of industries reported that their selling prices have leveled off, while prices paid have decelerated. Philadelphia noted that reports on input costs and output prices showed a general decline. Cleveland reported that transportation surcharges were removed for some contacts. In Atlanta, most District contacts reported that they did not plan to raise output prices due to lower input costs and weaker demand. A manufacturer in Minneapolis noted success in passing along input cost increases to customers, but will likely lower prices going forward. Manufacturers in Kansas City reported a sharp deceleration in raw materials prices. Many contacts in Dallas reported that they resisted price-cutting pressures from their customers, but that they expected to lower prices over the next several months. San Francisco noted declines in the prices of transportation services. A number of District reports mentioned that retailers were widely discounting prices in anticipation of a slow holiday sales season.
FIRST DISTRICT – BOSTON

Reports from business contacts in the First District indicate the economy slowed further in the third and fourth quarters to date. Retailers report that sales are softening and, in some cases, are below year-earlier levels; manufacturers cite declines in orders or sales from a year ago, some of which are sizable. Most software and information technology services respondents see a slowdown currently or in the near future, while temp firms cite a marked falloff in business in November. Upward price pressures are said to have eased markedly. Commercial and residential real estate markets remain weak, although on the residential side, September or October saw steep price declines and sales about level with a year earlier.

Retail and Tourism

First District retailers cite mixed sales results for October and early November, but even those contacts with sales increases from a year earlier report a softening. Retailers say that consumers are scaling back spending, and they expect consumers to spend less on the holidays this year.

Inventory levels continue to be tightly managed. Capital spending reports are mixed for the remainder of the year, but all contacted retailers plan to cut spending for 2009. The majority of respondents have invoked hiring freezes and a few have recently reduced or are considering reducing headcounts. Seasonal hiring for the holidays appears to be scaled back from previous years. Several contacts indicate that credit availability has started to improve; however, one contact notes a reduction in the availability of consumer financing.

Overall, First District retailers are concerned and watchful in their outlook, especially with regard to the upcoming holidays. The majority of contacts express the view that the next six to twelve months will be challenging.

Manufacturing and Related Services

Manufacturers and related services providers headquartered in the First District say that sales and orders have weakened in the fourth quarter to date. Some firms indicate that the deterioration has been dramatic, and that market demand is the worst they can remember. Many companies making major equipment, automotive parts, and consumer-good components report that demand has decreased at double-digit rates from late 2007 or from earlier in 2008. Some respondents indicate that overseas sales are weakening as a result of slumping economies or the strengthening dollar, while others say that overseas sales continue to grow, particularly in Asian markets. In contrast to prevailing trends, contacts report rising sales of aircraft parts and energy-management products. In addition, demand for medical and scientific instruments and supplies is said to be holding up fairly well.

Most manufacturers say that overall materials costs are flat to decreasing, and that transportation costs have come down. However, contacts indicate that some suppliers have not reduced prices immediately or automatically as metals and oil prices have fallen. In such cases, manufacturers are pressuring suppliers for price reductions or are anticipating price reductions as contracts expire or are renegotiated. Reports on selling prices are mixed. Some contacts indicate that their prices are under downward pressure as markets erode. Others have increased their prices slightly or expect to do so in early 2009.
Almost all of the manufacturing and related services respondents report that they are taking steps to reduce their U.S. wage bills. Measures include layoffs, furloughs, and selective pay cuts. In addition, some companies report they are dismissing temporary workers, restricting employee travel, or reducing purchases of consulting services.

The majority of manufacturing respondents indicate that they are trimming capital expenditures, citing a need to spend more cautiously or preserve cash flow. Some contacts report that financing costs have risen to abnormally high levels.

Most manufacturers express caution or concern about their sales in coming months. About one-half say they expect their business to be in decline through the end of 2009. Others cite heightened uncertainty with respect to the economy and financial markets, and have contingency plans should conditions turn out to be worse than currently expected.

**Software and Information Technology Services**

First District software and IT services firms report mixed outcomes in the fourth quarter to date, with year-over-year revenues ranging from declines of about 10 percent to gains of nearly 25 percent. A few contacts note that clients are delaying deals until there is less market uncertainty or are slowing down payments, thus elongating the sales cycle. Many respondents have felt increased pressure from customers to reduce prices, while others are paying closer attention to spending in order to maintain profits. Some firms are anticipating hiring freezes or layoffs; meanwhile, others plan to continue expanding. All contacts express apprehension regarding the economy and many anticipate a difficult year ahead. Although some firms are hoping for modest to high growth in 2009, contacts say they recognize the unpredictability of financial markets and are proceeding “cautiously.”

**Staffing Services**

The sentiment among New England staffing respondents is gloomy. While contacts report varied year-over-year revenue changes in the most recent quarter, all have experienced flat to sharp declines in business during the past several weeks. Labor demand has slowed, especially for workers in general administrative and financial occupations, and the majority of respondents say that the demand for permanent hires has weakened even more than for temps, with one contact reporting a 20 percent decline in revenues from permanent placements over the past year. Rising unemployment has improved labor supply, but it is still difficult to fill positions for engineers, programmers, healthcare lab personnel, and IT-professionals. A few contacts remark that clients are asking to renegotiate bill rates downward, by 5 percent to 15 percent, which will in turn place downward pressure on pay rates in the coming months; another respondent notes that applicants have been more flexible recently about accepting lower offers.

Staffing executives in the First District are very worried about the crisis in the financial markets and the effect it is having on clients, with one contact noting, “Everybody’s spooked. There’s no hiring going on at all.” The end of the year typically marks a slower time for the staffing industry as clients are closing their books and terminating projects, but respondents expect this year to be much worse. One contact anticipates at least a 20 percent drop in revenues during the fourth quarter of 2008, and most are hoping to maintain revenues but expecting declines in 2009.
Commercial Real Estate

The mood among contacts this period is downbeat. A Boston respondent is concerned that the “bearish mood” has spread to sectors of the regional economy previously described as robust, such as higher education. The same contact describes the credit squeeze as “murderous,” and cites the example of a major downtown Boston project which remains stalled for lack of the last $50M in financing, despite having secured tenants that would occupy a significant share of the space. A commercial property lender in Boston reports that lending remains extremely conservative at their bank, as they approach their own borrowing limits and strive to maintain adequate cash reserves. In Connecticut, sales volume is reportedly very low and financing limited.

The office rental market in Boston is showing growing signs of weakness, with very low leasing volume and softening rents—the latter are reportedly down 10 to 15 percent from their peak in early 2008. Absorption is negative and vacancies have edged up to around 11 percent downtown and to 15 or 16 percent in the Boston suburbs. There is talk of looming layoffs in the financial sector that will put further upward pressure on office vacancies. Another Boston contact notes that retail vacancies are not being filled, and he is aware of upcoming store closings that will add to retail vacancies in the next few months. In Maine, rents are down 10 to 20 percent across all sectors, but vacancies are holding steady, and no large job losses or store closings have been reported yet.

The outlook is pessimistic. Absorption is expected to remain negative in Boston throughout 2009. Contacts in Maine and Connecticut are concerned that firms will be going out of business or announcing large layoffs, adding to commercial vacancies and putting further downward pressure on rents. Credit market conditions are not expected to improve significantly in 2009, either.

Residential Real Estate

In a change from August numbers, home sales in the New England region showed modest declines and some increases in September and October compared to the year before. However, these numbers reflect deals that were initiated 45 to 60 days earlier, and some contacts report that activity has slowed again since the troubles in the financial markets in September and October.

Single-family home sales in Massachusetts increased 5 percent year-over-year in September and were up again in October, including a 13 percent year-over-year increase in the Boston area. Home sales in New Hampshire increased 1 percent year-over-year in October. Home sales in September decreased 1 percent year-over-year in Rhode Island and 5 percent year-over-year in Connecticut. These improvements in year-over-year sales changes compared with August coincided with substantial price declines. Median home prices were down 8 percent in Connecticut, 13 percent in Massachusetts, and 17 percent in Rhode Island in September compared to a year earlier. Median home prices in New Hampshire fell 13 percent year-over-year in October. In the Massachusetts multi-family home market, sales increased 40 percent year-over-year in the third quarter while prices dropped 35 percent.

While most contacts see the September sales numbers as a positive sign, they express doubt about whether the improved sales patterns will continue; respondents in Boston and New Hampshire say the market was very quiet in October and November. One contact continues to think that the downturn in the housing market will last through the end of 2009.
SECOND DISTRICT--NEW YORK

The Second District’s economy has deteriorated substantially since the last report. Both manufacturers and other firms report widespread declines in business activity and employment levels, and a growing number plan to curtail capital spending in the months ahead. Firms in a broad array of industries report that both their input costs and selling prices have leveled off, after rising through the third quarter. Retailers report weak sales for October and early November, though inventories are not said to be too out of line; retailers say that prices are flat to lower. An annual survey of consumers in the region suggests that holiday season spending will be considerably lower than in 2007. Tourism activity in New York City is reported to have declined sharply in recent weeks. Both residential and commercial real estate markets have softened substantially since the last report, most notably in Manhattan. Finally, bankers report widespread weakening in loan demand across all segments, substantial tightening in credit standards, and higher delinquency rates on all types of loans.

Consumer Spending

Retail sales were said to be well below plan in October and early November, with same-store sales running 5 to 10 percent lower than a year earlier. One large chain notes that its sales performance might have been weaker still, if not for unseasonably cold weather in early November spurring sales of outerwear and winter apparel. The most pronounced weakening has been in New York City, which had been out-performing the rest of the region until recently. In contrast, two retail contacts in the Buffalo-Niagara region report that sales have remained fairly brisk through October. Despite the overall weakness in sales, retail inventories are not reported to be substantially above desired levels. Retail contacts report that this season is shaping up to be more promotional than last year’s, with steeper markdowns and effective prices generally lower than in 2007. Looking ahead to the upcoming holiday season, retailers anticipate year-over-year percentage declines in same-store sales ranging up to the low double digits. Based on an annual supplementary question on the
Conference Board’s November consumer confidence survey, consumers in the Middle Atlantic region plan to spend roughly 10 percent less on holiday-season gifts than in last November’s survey.

Tourism activity in New York City has weakened sharply since the last report. Overall revenues of Manhattan hotels have plummeted in recent weeks: after running about 10 percent ahead of comparable 2007 levels in the third quarter, revenues are reported to be down more than 10 percent from a year earlier in October and are estimated to be down more than 20 percent in early November. The recent drop-off reflects declines in both occupancy rates and room rates. Also, Broadway theaters report that business slowed in mid-October and has remained weak since. Comparisons with 2007 are not relevant, due to a strike last November, but both attendance and revenues have been sluggish, running more than 10 percent lower than two years ago. Average ticket prices have been relatively steady.

**Construction and Real Estate**

Housing markets in the District have deteriorated further since the last report. A major residential appraisal firm reports substantial deterioration in New York City’s housing market over the past two months: prices of Manhattan co-ops and condos are reported to have fallen by 15 to 20 percent since mid-summer, though it is hard to get a clear handle on prices due to thin volume—much of the recent activity is reportedly from desperate sellers. Transaction activity has dropped off noticeably, and there has been a large increase in the number of listings. Some buyers that had signed contracts for units under construction earlier this year are having trouble getting financing at the contract price now that market values have dropped. Many of those having difficulty selling their apartments are putting them up for rent, boosting the number of rental listings substantially—particularly in doorman buildings. Average asking rents are reported to be down 1 to 4 percent from a year earlier.

New Jersey’s housing market has also deteriorated substantially since the last report. A building industry expert describes buyer traffic at new developments as almost non-existent and notes that larger construction firms are backing out of new developments and cutting jobs, while a
number of smaller firms are contemplating either moving into the rehab segment of the market or going out of business. Multi-family development, which had been holding up somewhat through the summer, has ground to a halt more recently. A real estate contact in northern New Jersey indicates that selling prices for existing homes are down 20 to 25 percent from a year ago, but that the number of transactions has held up, as sellers are increasingly negotiable; many potential sellers have taken their homes off the market, keeping the inventory of unsold homes relatively low. The low end of northern New Jersey’s housing market is said to be holding up fairly well, whereas the market for higher-priced homes (over $400K) is described as moribund. In contrast, real estate contacts in western New York State report that prices have continued to increase modestly through October, though sales volume has tapered off moderately.

Commercial real estate markets in the New York City area have weakened noticeably. Manhattan’s office vacancy rate continued to climb in October, rising more than ½ point, led by Midtown. Leasing activity has slowed markedly, and many tenants are requesting short-term renewals, with landlords generally willing to oblige. Actual rents have continued to decline, while asking rents, which had remained slightly above 2007 levels through the third quarter, have now turned down as well. There has been a particularly sharp increase in the amount of available sub-lease space—largely from financial firms. Office markets on the outskirts of New York City are also reported to be softening, but not as dramatically as Manhattan’s.

Other Business Activity

There have been widespread signs of weakening in the labor market. A major New York City employment agency, specializing in office jobs, reports that there are now very few job openings, and a large and growing supply of job applicants. Many of the recent job candidates are people let go from entry level management jobs. Hiring by large investment banks remains nearly non-existent; more recently, legal firms, hedge funds and private equity firms have cut back dramatically on hiring.
More generally, paralleling the weakness reported in our recently-released survey of New York State manufacturers, non-manufacturing firms in the District report widespread deterioration in employment, as well as in business activity. Non-manufacturing firms also anticipate further declines in both employment and business activity in the months ahead, and a growing number plan to reduce capital spending. A growing proportion of firms—both manufacturers and other firms—report tightening credit conditions over the past three months. Firms across a wide range of industries report that their selling prices have leveled off, while their prices paid have decelerated.

**Financial Developments**

Bankers report weakening demand for loans in all categories—most noticeably in the residential mortgage segment, where 68 percent of bankers report lower rates and 6 percent reported higher rates. For all loan categories, respondents indicate widespread tightening of credit standards. The percentage of bankers reporting higher standards ranged from 45 percent in the residential mortgage category to 54 percent in the commercial and industrial loan category; none of the bankers surveyed indicates an easing of credit standards. Respondents note an increase in the spreads of loan rates over cost of funds for both commercial loan categories but no change in spreads for consumer loans and residential mortgages. Respondents indicate no change in the average deposit rate. Finally, bankers report fairly widespread increases in delinquency rates across all loan categories.
Business conditions in the Third District remained generally weak in November. Manufacturers, on balance, reported declines in shipments and new orders. Retailers indicated that the pace of sales was nearly steady during November but down from the same month last year. Motor vehicle dealers reported very slow sales. Bank loan volume moved up in November, but credit quality deteriorated. Residential real estate sales and construction continued to fall. Commercial real estate investment and construction activity declined further. Business firms in the region reported decreases in input costs and output prices in November, particularly for basic commodities.

The outlook among Third District businesses is generally not positive. Manufacturers forecast decreases in shipments and orders during the next six months. Retailers are not optimistic about the holiday shopping period. Auto dealers do not expect sales to improve in the near future. Bankers anticipate slow loan growth and further weakening in credit quality. Residential real estate agents and home builders expect sales to remain slow for the next several quarters at least. Contacts in commercial real estate expect leasing and construction activity to remain at low levels as long as financial conditions remain volatile.

**Manufacturing**

Third District manufacturers surveyed in November reported declines in shipments and new orders, on balance, compared with October. Nearly one-half of the manufacturers surveyed noted decreases in those measures, and only one-fifth reported increases. Reports of declining demand exceeded reports of rising demand in practically all the major manufacturing sectors in the region. The falloff in demand was especially large for firms that manufacture construction-related goods and materials. One maker of housing products said, “The industry is at a standstill, and there will be a massive shakeout by next spring.”

The outlook among Third District manufacturers has become more pessimistic in the past month. Among firms polled in November, a little more than one-third expect new orders and shipments to decline during the next six months, and a little less than one-third expect increases. Area manufacturers have reduced capital spending plans since last month, and future outlays are now slated to decline, on balance. Area manufacturers also plan to reduce inventories, on balance, during the next six months. Area manufacturers are cutting inventories in response to declining production, and some are reducing inventories of commodities to avoid losses on their
value as prices decline. As one manufacturer of metal products noted, “Inventory liquidation is the order of the day until a price floor is achieved.”

Retail

Most of the retailers contacted for this report indicated that customer traffic and sales were nearly steady during November after declining from September to October. Nevertheless, many stores reported that this November’s results were below those of November of last year. Discount stores continued to post better performances than most other types of stores, although some stores selling apparel noted a seasonal pickup in sales of outerwear. Store executives said price markdowns have been widespread and steep, which has given some support to sales but is negatively affecting profit margins. The outlook for the holiday shopping period among Third District retailers is not optimistic. They expect restrained buying by consumers, and even retailers who believe holiday-period sales could exceed current expectations say extensive discounting will mean that there might be “volume but no profit,” as several remarked. Many of the retailers contacted in November said they expect sales to remain sluggish in the first half of 2009, and they have cut back on expansion plans and capital spending in general.

Nearly all the auto dealers in the region surveyed in November reported a very slow pace of sales, well below the rate of a year ago, although a few noted a slight improvement from the September and October sales rate. Dealership closures continued, with some going out of business due to falling sales and others closing because they have not been able to obtain inventory financing. Dealers see no signs of a rebound in sales, and they expect more dealerships to close in the months ahead.

Finance

Total outstanding loan volume at Third District banks rose in November, according to bankers contacted for this report. There have been gains in business loans, real estate loans, and consumer credit. Several regionally based banks said they have picked up new business borrowers who have terminated relationships with large nationwide financial intermediaries. Most of the banks contacted for this report said that credit quality measures continued to deteriorate for both business and personal loans, and that delinquencies and defaults on loans to real estate developers and builders, including residential and some commercial developers, have risen markedly. Nearly all banks indicated they were tightening credit standards; some said they were imposing “stricter underwriting criteria across the board,” and others said they were
allowing “fewer exceptions” to underwriting standards for new loans. Looking ahead, bankers generally expect, at best, slow expansion in lending in 2009.

Bankers reported strong competition for deposits. Many are raising rates on transactions and savings accounts and on certificates of deposit. The upward trend in deposit rates has raised concern among bankers that net interest margins will remain tight well into next year. Several bankers noted that higher rates have prompted some growth in deposits but that stronger deposit growth will be needed to obtain sufficient funds to meet their loan growth targets.

**Real Estate and Construction**

Residential real estate activity in the Third District has softened in recent weeks. Residential real estate agents and builders reported little progress in reducing inventories of homes for sale. One real estate agent said the market has stalled because buyers are unable to sell their current homes and are unwilling to buy until they do so. A residential builder indicated that traffic has slowed but not stopped; however, “Good buyers are viewing homes, but they can’t get comfortable about making a purchase.” Another said starter homes are the most active market, but the number of potential buyers is being constrained by difficulty obtaining mortgages. Builders and agents do not predict an increase in sales for at least several quarters, and they expect the upturn to be slight.

Commercial real estate firms indicated that construction, leasing, and purchase activity continued to fall in November. A number of previously announced commercial projects have been indefinitely postponed, and work has slowed or stopped on several projects already under construction. Contacts expect commercial real estate investment and construction activity to remain at low levels as long as financial conditions continue to be uncertain.

**Prices**

Reports on input costs and output prices reveal a general decline since the previous Beige Book. Manufacturing firms noted a broad decrease in commodity prices for the materials they use, and many have reduced the prices of their own products in order to maintain current sales rates or minimize declines. Retailers generally reported early and steep markdowns for the upcoming holiday sales season.
FOURTH DISTRICT – CLEVELAND

Overall economic activity in the Fourth District has weakened markedly since early October. The downward trend in factory output and steel shipments that began in the middle of the third quarter continued. Residential construction remains very weak, with no improvement expected during 2009. Commercial builders told us that inquiries have been falling off, and they anticipate a slowdown in business through at least the first half of next year. Sales by District retailers were characterized as flat to down, while reports from auto dealers indicate that purchases of new and used cars have dropped. Business loan volume has been steady to up, while consumer lending activity has weakened. Energy production is stable. And freight transport volume declined across most industry sectors.

Reports show a drop in employment levels, primarily in manufacturing, residential construction, and auto dealerships. Staffing firms reported that job openings were flat to slightly down, with openings concentrated in health care and financial services. Wage pressures remain contained across all industry sectors. Almost all respondents affiliated with manufacturing, construction, and energy companies said that raw materials prices were stable or showed a moderate decline.

**Manufacturing.** Output at District factories was flat to down during the past six weeks, with several reports indicating double-digit reductions in orders. On a year-over-year basis, a majority of our contacts said that production fell. Most respondents expect that output will continue to slow going into 2009. Capacity utilization was at or below normal levels. Almost all steel producers and service centers reported a worse-than-expected slump in shipping volume. The only end markets showing some strength are energy and aircraft. All of our contacts believe that market conditions for steel will weaken further in the upcoming months. In contrast, the data show a rise in District auto production during October on a month-over-month basis, with foreign makers accounting for most of the increase. October’s increase reflects a normal seasonal adjustment from lower production levels during September. In terms of year-over-year comparisons, production fell, with domestic nameplates absorbing the entire downturn.

Capital spending remains on plan; however, two-thirds of our respondents reported that they plan to cut back on capital expenditures during 2009. Companies with strong balance sheets were successful in renewing credit lines. However, the agreements contained additional covenants and the cost of credit was higher. Almost all of our respondents said that the prices they pay for raw materials have declined, some significantly. Moreover, only one producer raised his prices during the past six weeks, while several reported lowering the prices of their
products. Looking forward, a majority of our contacts expect that cost pressures will continue to subside. Half of our respondents said they have either laid off employees or intend to do so in the near future. Further, we heard several reports of companies eliminating overtime or initiating hiring freezes. Wage pressures are not an issue.

**Real Estate.** Residential contractors reported extremely weak home sales during the past six weeks, with Internet and foot traffic showing steep declines. Looking forward, builders are not expecting any industry turnaround through 2009. Credit remains available to homebuilders and buyers, especially from community banks. However, lending standards have tightened, rates have increased, and banks are requiring higher down payments. Prices for building materials continue to moderate, especially lumber and drywall. Half of our respondents told us that they have marked down the list prices of their houses, and inventories have been pared to match current sales levels. General contractors and subcontractors reported reductions in staff levels and no wage pressures.

Most commercial builders told us that business started to slow down during the past six weeks, and they expect the decline will continue through at least the first half of 2009. Several firms attributed the slowdown, in part, to difficulties in financing projects. Backlogs remain relatively strong, while inquiries have been falling off. Contractors reported holding their prices steady; however, a few expect some margin contraction in 2009. Construction materials prices have stabilized. Workforce levels were largely unchanged, and no wage pressure was reported.

**Consumer Spending.** District retailers reported October sales were flat to down on a month-over-month basis across all industry segments. The sole exception was a national discount chain, which reported increased sales. Looking forward, respondents expect a relatively weak holiday shopping season. Apart from paper products, vendor prices were stable. Sellers of paper products told us that they are passing through price increases to their customers. Reports from auto dealers indicate that purchases of new and used cars have declined over the past six weeks. Low-priced models that get good gas mileage had the highest sales volume. Dealers do not expect much improvement in the upcoming months. Capital expenditures by retailers remain on target; however, half of our contacts said they plan to cut back on spending during the next 6 to 12 months. For the most part, staffing levels at retail stores have not changed; however, seasonal hiring will be less than last year. Several auto dealers said they have cut additional staff since our last report. No wage pressures were reported.

**Banking.** In general, business loan volume has been steady to up, with some of the increase attributed to drawdowns on existing lines of credit. Interest rates trended upward,
reflecting higher pricing of risk and a pass-through of increased bank borrowing costs. On the consumer side, installment loans were flat to down, while the use of home equity lines of credit remained solid. Pricing for consumer loans also showed a slight increase. Several bankers told us that they are actively marketing their loan business. Nonetheless, they are cautious in extending new loans, with credit standards continuing to tighten. Credit quality of incoming applicants was characterized as stable to slightly down. For a majority of our respondents, spreads have widened a bit during the past six weeks. Overall, core deposits are growing, especially at banks that are paying competitive rates on CDs and money market accounts. Staffing levels remain steady and no wage pressure was reported.

**Energy.** On the whole, energy production has been stable during the past six weeks. Expectations call for oil and natural gas production to remain steady or increase, while coal production is expected to weaken during the upcoming months. Reports indicate that the prices received for oil and natural gas fell significantly since their July peaks. Materials and equipment costs have moderated, especially for diesel fuel. Capital expenditures are on plan, with little change expected during the next few months. Workforce levels held steady, and no hiring is expected in the near future. Wage pressures that existed earlier in the year have diminished.

**Transportation.** Freight transport service companies experienced an overall decline in shipping volume and revenues since our last report. Company officials told us that the housing, auto, consumer products, and steel industries are primarily responsible for the drop-off. Expectations call for activity to remain weak through at least the first quarter of 2009. Transport pricing remains competitive, and there are reports that fuel surcharges are being removed in some places. Capital spending remains on target but at low levels for most companies. Almost all expenditures are allocated solely for equipment replacement. Little change in capital spending is expected during the upcoming months. For the most part, hiring was limited to driver turnover. However, we heard several reports of potential layoffs due to industry-wide capacity reduction. Any wage increases fell within industry norms.
Overview. The Fifth District economy weakened during late October and early November. Retail sales contracted as shopper traffic waned, and demand dropped for big-ticket items, such as cars and furniture. Manufacturers reported falling shipments and new orders while export activity declined. Both retailers and manufacturers cut employment in recent weeks. Meanwhile, the housing sector failed to improve as mortgage demand was weak and credit standards tightened for most loan products. Contacts reported that the only measurable movement of houses occurred among homes in the low-to-middle price range. Furthermore, commercial real estate markets were sluggish as leasing activity decreased, new construction stagnated, and contacts had difficulty obtaining loans. Price pressures in the District eased in the last six weeks as the prices of manufactured goods fell, raw materials and retail prices grew at a slower pace, and services firms’ prices were little changed.

Retail. Retail sales contracted since our last report, as big-ticket sales fell sharply and shopper traffic declined. A seller of building supplies said his market was "dead," and store managers at department stores in Virginia Beach, Va., and central North Carolina said their sales contracted. Among our contacts at car and light truck dealerships, sales of domestic brands continued to fall. A West Virginia domestic car dealer told us he had gone from average sales of 250 cars per month to selling only six cars in November 2008. In contrast, a Virginia Beach dealer reported seeing a slight pickup in sales of vehicles with foreign nameplates. Retailers made deep cuts in employment, and wages declined in recent weeks. Retail price growth moderated during the period.

Services. According to contacts, revenues generally declined at services-providing firms since our last report. A healthcare executive in central North Carolina told us that people whose health insurance expired following a job loss had cut back on visits to primary-care groups located at his facilities. Along with the president of another hospital in North Carolina, he voiced concern that this would soon result in sicker people in emergency rooms, with no way to pay. Other services businesses also faced a weaker market. District financial services firms reported that the mood of clients remained negative despite "hints" of loosening credit. However, telecommunications businesses and CPA firms stated that demand for their services was strong. Overall, services employers cut jobs in recent weeks, and several contacts said they were planning hiring freezes in the near future. Average wages grew modestly, while price growth at services firms was nearly zero.

Manufacturing. District manufacturers reported that activity contracted further in recent weeks with notable weakness in shipments, new orders, and employment. A furniture maker in North Carolina told us that the furniture business had “frozen shut” across the country and across all of his furniture lines. He reported that the recent furniture market in High Point, N.C., was lightly attended with few orders placed and indicated that his company had laid off employees. A producer of paper products in North Carolina said that even though waste paper prices had been reduced by 50 percent and energy costs were
down, business was terrible—which he attributed to the unavailability of financing. He pointed out that if market conditions did not improve over the next six months, his business would be in danger of failing. Other contacts noted that finished goods prices declined, which they attributed to slower business and weaker demand for their products. In addition, they indicated that input price pressures had eased, reflecting the pullback in energy and commodity prices.

Port activity slowed “considerably” in October and early November, according to our contacts. Exports fell at each of the District’s major ports, where contacts reported seeing “a lot more ship space available.” Shipping rates for bulk goods decreased notably in recent months, leading exporters, when possible, to switch from container shipping to bulk shipping, thus reducing the demand for containers and increasing the number of outbound empty containers. Additionally, import activity cooled in Norfolk, Va., and Baltimore, Md., where the number of inbound containers declined and imported autos were “sitting around.” In contrast, imports increased “aberrantly” in Charleston, S.C., between September and October, according to a local port official.

Finance. Commercial lending activity remained soft in recent weeks. Nearly all contacts reported that demand for loans was “flat” to “slightly down,” although one lender at a Virginia community bank said her office had “been busy since we haven’t pulled back in our lending.” Changes in credit standards were mixed, with some lenders reporting a slight tightening of loan-to-value ratios and stricter credit policies, while others indicated no revisions over the last six weeks. A banker covering Virginia and the Carolinas noted “continued deterioration” in the financial portfolios of his clients—especially for consumer related businesses—while other District contacts reported that credit quality was generally stable.

Demand for home mortgages continued to be weak in late October and early November. Lenders reported a further slowdown in activity across the District, with a Washington, D.C., contact noting that most of his firm’s business was stemming from foreclosure and short sales in the northern Virginia area. Credit standards remained tight in recent weeks as some institutions raised required credit scores and further reduced product offerings. However, contacts in the Washington area reported a slight loosening in standards for a limited number of loan products.

Real Estate. Fifth District housing markets remained generally sluggish in recent weeks. A Richmond Realtor reported little activity in house sales, although he noted that, “we are going through a seasonal change right now.” He reported that houses in the middle price range were selling but mostly to first-time homebuyers. Additionally, he said the uncertainty of the economy had everyone in a “holding pattern”—people looking to sell their homes were waiting to see if the housing market will turn around. Meanwhile, market volume rose in the northern Virginia area; a Realtor in the area was optimistic about December house sales, which he said would “reduce his inventory and ready the market for when spring hits.” On the other hand, an agent in Greensboro, N.C., reported very slow house sales, with major concessions to buyers being made. He said there had been some movement in lower-priced houses, but
not enough to keep builders afloat; several builders in his area were on the verge of “closing shop.” Meanwhile, an agent in Greenville, S.C., reported a 17 percent decrease in volume. House prices were steady across much of the District although a few contacts reported slight decreases.

Commercial real estate contacts across the District generally noted slower leasing activity since our last report. Agents reported a moderate volume of deals going through, although clients were increasingly stretching out the decision making process. Rental rates trended down in Richmond but held steady in most other cities. In Washington, D.C., Norfolk, Va., Charlotte, N.C., and Greenville, S.C., contacts reported a rise in landlord concessions—such as free rent and tenant improvements—while agents in Baltimore, Md., Richmond, and Raleigh, N.C., noted an uptick in broker incentives. Changes in occupancy rates varied. Vacancies moved higher for retail space in Richmond and Columbia, S.C., office space in Raleigh and industrial space in Charlotte. Elsewhere in the District, vacancy rates were mostly unchanged, but contacts in Washington and Norfolk expected increases in coming months. Contacts reported that financing was harder to obtain as lenders were requiring lower loan-to-value ratios. Little new construction was announced in recent weeks and agents across the District reported that deals were being shelved or canceled due to the current economic environment and difficulty obtaining financing.

Tourism. Assessments of tourist activity were mixed in recent weeks. Coastal contacts in the Outer Banks of North Carolina and in Myrtle Beach, S.C., told us that the fall season had been very soft, which they attributed to weaker consumer spending and wide-ranging concerns about the economy. In contrast, a manager at a ski resort in Virginia said that his bookings were steady and sales of time shares were on par with last year. He also indicated that reservations were somewhat stronger for the Thanksgiving and Christmas holidays. Adding to the upbeat tone, tourism officials in the Washington, D.C., area told us that they were anticipating record attendance for the Presidential inauguration in January, which would benefit hotels and restaurants in that region.

Temporary Employment. Fifth District temporary employment agents reported weak demand for workers in October and early November. An agent in Raleigh, N.C., said people were willing to take jobs that pay less in order to keep working. In contrast, an agent in another area of Raleigh was optimistic that demand would strengthen over the next several months. A Richmond, Va., agent expected demand to weaken further in coming weeks due to the “terrible economy.” In general, wages remained unchanged across the District.

Agriculture. Cooler-than-normal temperatures coupled with above average rainfall helped replenish soil moisture in much of the District, but delayed field work in some regions. Analysts in Virginia and West Virginia told us that soggy field conditions hindered soybean harvests, while contacts in South Carolina noted that wet conditions had slowed planting and crop-combining activities. In contrast, small grain plantings were ahead of schedule in Maryland and North Carolina, and the cool, wet conditions in Virginia improved small grain and cover crops. Fruit producers in Maryland and South Carolina reported that the apple harvest had been completed, and the peanut and cotton harvests were
nearing completion in Virginia. In addition, the Christmas tree harvest was in full swing in North Carolina as producers prepared for the holiday season.
SIXTH DISTRICT – ATLANTA

Summary. Economic conditions in the Sixth District weakened further in October through mid-November. Retail spending deteriorated, holiday sales expectations were bleak, and activity in the tourism sector declined. Residential real estate contacts indicated that sales and construction activity remained extremely weak. Average home prices in many areas declined, pressured by the large number of foreclosed properties for sale. Commercial contractors noted a further decline in nonresidential construction. Most manufacturing contacts noted reduced production and declines in new orders. Credit conditions remained tight for both businesses and consumers. Labor markets weakened further and holiday-related hiring plans were restrained. Cost pressures for businesses eased on declining commodity prices and weaker demand.

Consumer Spending and Tourism. District retail contacts indicated that they were more pessimistic in October and early November than in the previous report. While households benefitted from declines in gasoline prices, this did not appear to be enough to boost overall retail spending. Sales activity heading into the holiday season was described as weak, and expectations for December sales were somber. The majority of retail contacts reported that inventories were above plan. In an attempt to stimulate sales, several retailers noted that they have expanded store hours, increased advertising, and plan deeper discounts. Some stores have begun to offer layaways as an incentive for budget-conscious shoppers who are unable or unwilling to use credit. Automobile dealers observed that sales deteriorated further, and that traffic was well below year-ago levels. Several dealers noted that they were trying to boost fleet and lease sales in an attempt to offset declines in the retail market.

After being a relative bright spot in the District economy for most of the year, tourism activity deteriorated more recently. Reportedly, visitor numbers at tourist destinations weakened, and visitors were spending less per trip. Several cruise lines and resorts were aggressively discounting prices in an effort to boost traffic. Business travel was also down according to contacts in the convention industry.

Real Estate and Construction. Reports from homebuilders and Realtors indicated that new and existing home sales remained weak in October through mid-November. Many contacts reported that worsening employment conditions and the unavailability of financing was restraining sales. However, some markets, particularly in Florida, saw modest gains in sales over weak year-ago levels. District homebuilders continued to pull back on construction in the face of historically high inventory numbers. Home prices continued to soften in the District with contacts indicating that the large volume of foreclosed properties for sale was exerting
downward pressure on new and existing home prices. According to District contacts, the outlook for residential sales and construction activity remains weak.

Most District commercial contractors continued to report declines in activity. More projects were postponed or cancelled because of funding constraints and weak economic conditions. Nonetheless, contacts also noted that more existing space had been put back into the commercial real estate market, particularly in retail.Going forward, most commercial real estate contacts anticipate softer leasing demand, while developers expect commercial construction activity to decline further.

**Manufacturing and Transportation.** Most manufacturing contacts reported declines in production and new orders during October and early November compared with a year earlier. The decline in production was exacerbated by a decrease in export demand. Many reports noted additional cuts to payrolls and hours, with most expecting weak conditions to persist into the new-year. Several firms remarked that they had scaled back their capital investment plans.

Transportation contacts reported lower shipments of automotive and construction materials, far offsetting modest gains in shipments of chemicals and coal. Most contacts reported that holiday-related shipments of consumer goods were down significantly from last year.

**Banking and Finance.** According to most banking contacts in the District, business and consumer lending activity decreased during October through mid-November. Credit conditions remained tight, and competition for deposits increased. Some contacts, especially in the real estate industry, observed that the restricted access to credit was forcing them out of business. Most banking contacts indicated that they did not expect credit conditions to change materially in the near-term as banks focused on repairing their damaged balance sheets.

**Employment and Prices.** District employment trends weakened further in October through mid-November. Several businesses noted that layoffs accelerated and that hours declined. Retailers scaled back holiday-related hiring plans because of weak sales expectations, although the negative reports were fairly widespread across most industries. For businesses that reported they were hiring, several indicated difficulty in recruiting workers because of increasing relocation costs resulting from having to sell an existing home.

Because of lower input costs and weaker demand, most District contacts reported that they did not plan on raising output prices. Contacts in manufacturing, business equipment supply, and construction mentioned that costs had stabilized after a long run of increases in recent years. Sources in the tourism industry noted difficulty raising prices because of a sharp drop in demand. Some retail and food service contacts reported a few instances of higher input
costs, but also indicated that they were generally unsuccessful in passing these costs on to customers. Apart from some healthcare and other high-skilled technical positions, most contacts suggested that wage pressures continued to diminish.

Natural Resources and Agriculture. Energy industry contacts reported that much of the damage that resulted from Hurricanes Ike and Gustav to the region’s oil, gas, and petrochemical infrastructure had been repaired by mid-November. Total production of oil and natural gas had not returned to pre-hurricane levels, however. Falling energy prices and tight financing conditions prompted several energy industry firms to consider cutting new investment and expansion plans.

Cotton farmers reported price declines despite the smallest regional crop in 25 years, which was a result of a drop in global cotton demand. While domestic poultry demand remained subdued, poultry producers experienced relatively strong export sales to Asia, Mexico, and Eastern Europe.
SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District declined in October and early November, and contacts expressed concern over the potential length of this downturn. Consumer spending decreased and labor market conditions weakened; residential and nonresidential construction both declined; and manufacturing activity moved lower. Credit conditions remained tight, but improved in some markets. Cost pressures from material and energy prices eased, and wage pressures continued to be low. There were further delays in corn harvesting due to precipitation. Corn, soybean, milk, hog, and cattle prices all fell during the reporting period.

Consumer spending. Consumer spending decreased in October and early November, as households continued to tighten their budgets. Retailers reported declines in sales, particularly for big-ticket items, as the response to discount pricing promotions was seen as sluggish. Fast-food restaurants and discount stores continued to fare better than their higher-priced counterparts. Contacts expressed concern that the holiday shopping season would be weak. Gasoline sales fell despite the decline in prices, and tourism activity in the District was lower. Auto dealers reported lower demand for luxury vehicles as well as continued weakness in sales of less fuel efficient vehicles. Service center activity picked up as car owners chose to maintain or repair existing vehicles instead of buying new ones. Contacts also indicated that credit for consumer auto loans remained tight, with an increasing number of banks tightening standards or exiting the business.

Business spending. The pace of business spending declined from the previous reporting period. Several contacts reported delaying or postponing hiring or capital spending projects. Others noted greater caution given the high level of uncertainty surrounding the economic outlook. Labor market conditions in the District also weakened. Layoffs were reported in several industries, and covered both hourly and salaried workers. Some of these job cuts were in progress while others were planned for the future. Further weakness in the demand for labor was expected in retail trade, transportation and warehousing, temporary help, and professional services. Manufacturing, construction, and financial services employment remained weak but were expected to see smaller declines going forward. Contacts also noted a reduction in hours worked. Staffing firms reported a decline in demand for their services. However, the demand for skilled labor remained strong.

Construction/real estate. Construction activity declined in October and early November. Residential building continued its steady decline. Project delays and cancellations persisted and credit remained tight. Housing prices continued to fall and residential rents softened in some parts of the District. Contacts reported low levels of showroom traffic and that prospective home buyers consisted mostly of first-time and other buyers who were unencumbered by the need to sell an
existing home. However, several contacts noted that inventories of unsold new homes had declined some from their recent highs. Mortgage originations and refinancings were down due to tightening credit standards, an increase in mortgage rates, and declining home equity as well as other factors weighing on housing demand. Nonresidential development and construction also declined, with several contacts reporting a weaker outlook than in September. Slowing activity was cited for public works, office, retail, and industrial construction. Cancellations and project delays were again reported. Furthermore, several contacts noted downward pressure on commercial rents and an uptick in vacancy and sublease space. The availability and cost of financing also continued to be of concern for developers.

**Manufacturing.** Manufacturing activity in the District declined from the previous reporting period. However, contacts noted that inventories continued to be at comfortable levels. Activity weakened substantially in the domestic steel industry. Contacts in the lake freighter industry have taken boats out of service early due to lack of demand for raw materials for the steel industry. Demand also softened for construction machinery, medium- and heavy-trucks, and for manufacturers with close ties to housing, such as building materials, home appliances and furnishings. In contrast, manufacturers of heavy machinery used in sectors such as oil and gas extraction and mining continued to report strong activity, although one manufacturer noted that “the steam is coming out of these markets.” Production of pharmaceuticals and medical goods remained a source of strength. Aviation manufacturing contacts noted that even though the Boeing strike had ended some lingering negative effects of the walkout on production may remain. Exporters reported that demand from Europe continued to slow, and that demand in emerging markets such as China was also weaker. Automakers noted an uptick in sales in November from their low levels in October. Contacts in several industries expressed concern over the effect of a possible failure of one of the automakers on demand for their products. Most contacts reported little impact of tighter business credit on their own operations. However, several contacts noted reports of difficulties faced by others in their industries including exporters, suppliers, smaller firms, and the automakers.

**Banking/finance.** Credit conditions in the District continued to be tight, but improved in some markets. Though the cost of funds for banks and other financial institutions remained elevated, it improved from September. The FDIC’s debt guarantee program and Federal Reserve lending were said to have improved liquidity in the interbank market. Banking contacts noted a decline in business loan demand as nonfinancial firms were deleveraging. They also indicated that credit line utilization had stabilized after a brief spike in September, and that the increased coverage of FDIC insurance had slowed deposit outflows. A contact in commercial real estate finance reported that loan quality had begun to deteriorate, and that banks were tightening standards while non-bank credit availability
was decreasing. In addition, the secondary markets for commercial as well as nonconforming residential mortgages were noted to have tightened further. Conditions in the commercial paper market were noted to have improved, although one contact stated that difficulties were starting to appear for nonfinancial firms. Contacts also indicated greater liquidity in the credit default swap market, but that the net cost of capital had increased as credit risk continued to boost borrowing spreads.

Prices/costs. Material and energy prices moderated from the previous reporting period. Several contacts noted declines in gasoline, steel, and scrap prices. In contrast, price increases were reported for concrete, plastics, and shipping containers. Fuel surcharges also continued to be of concern as the price of diesel fuel remained elevated. Contacts also reported that despite recent declines in raw materials prices, some costs remained elevated due to contracts signed earlier in the year. Wage pressures were limited, with some downward impetus reported. Pass-through of previous input price increases to downstream prices continued; albeit to a lesser degree, with several contacts in retail trade lowering prices in response to weaker demand.

Agriculture. The soybean harvest finished in the District, but the corn harvest experienced delays due to precipitation, especially in Iowa. Soybean yields were down from a year ago, although overall output was higher due to the shift in acreage planted toward beans. Conversely, corn yields were up, but reduced acreage resulted in lower overall output. Much of this year’s corn and soybean harvest had already been sold ahead at profitable prices, with most of the rest going into storage instead of being sold at today’s lower prices. With little interest in selling crops today, the spreads between futures and cash prices declined. The ethanol industry was squeezed by lower prices for ethanol, with some firms also facing cost pressure due to corn purchased under earlier contracts at elevated prices. A major ethanol producer filed for bankruptcy protection, creating uncertainty for farmers with contracts to sell corn to the firm in the future. Milk, hog, and cattle prices moved lower, and there were concerns about bankruptcies in the livestock industry.
Summary

Business conditions in the Eighth District have continued to weaken. Retail and auto sales in October and early November were down, on average, compared with year-ago levels. Since our last report, manufacturing experienced significant declines, but the services sector improved slightly. Residential real estate activity decreased, while commercial real estate was mixed. Banks reported tightening in credit standards and weaker demand for loans during the three-month period ending in October.

Consumer Spending

Contacts reported that retail sales in October and the first half of November were down, on average, over year-earlier levels. About 81 percent reported decreases, while the rest reported increases. About 64 percent reported that sales were below expectations, and 23 percent said that sales were above expectations. Essential items were strong sellers, while high-end furniture, apparel, and gift items sales slowed. About 46 percent noted that inventories were at desired levels, but the remainder said they were too high. The sales outlook among retailers for the rest of 2008 was generally pessimistic, with 58 percent expecting decreases over 2007 levels and 27 percent expecting increases.

Car dealers surveyed reported that, compared with last year, sales in October and the first half of November were down, on average, with all contacts reporting a decrease. One-third noted that used car sales had increased relative to new, and 38 percent reported an increase in low-end vehicle sales relative to high-end. About 46 percent reported recent increases in rebates and incentives, while 8 percent reported fewer rebates. Two-thirds reported a recent increase in rejections of finance applications. About 88 percent said that their inventories were too high (mostly on new cars, high-end cars, trucks, and sport utility vehicles), and 12 percent had inventories at desired levels. For the rest of 2008, 92 percent of the car dealers expect sales to decrease over 2007 levels, but 8 percent expect sales to increase.
Manufacturing and Other Business Activity

Overall manufacturing activity has continued to decline since our previous report. Several firms in paper products manufacturing, machinery manufacturing, wood products manufacturing, glass/glass product manufacturing, and auto parts and automobile manufacturing announced plans to idle production. Firms in the cement, primary metal, fabricated metal, building products, machinery, printing, animal slaughtering/processing and auto parts manufacturing industries reported plans to close plants. Multiple firms in the primary metal, household appliance and machinery manufacturing industries reported job losses. Firms in electrical product, plastic parts, apparel, lumber, furniture, boat manufacturing, animal slaughtering/processing, and food manufacturing industries announced plans for layoffs. Mineral and primary metal manufacturing and the plastic products manufacturing industries experienced strikes, decreasing production. On the other hand, contacts in aerospace product/parts, auto parts, food and primary metal manufacturing reported plans to expand existing facilities and operations. A firm in the auto parts manufacturing industry announced plans to rehire and start production after a three month plant idling. Firms in electrical equipment, machinery, natural gas, and auto parts manufacturing reported plans to open new facilities. These firms also reported plans to hire additional workers.

Contacts in business support services reported new contracts and hiring plans. A firm in the transportation services sector announced expansion and new hiring plans. Firms in medical, financial, business support, tourism, rental/leasing, information and dry cleaning/laundry services, however, announced plans to lay off workers.

Real Estate and Construction

Home sales continued to decline throughout the Eighth District. Compared with the same period in 2007, October 2008 year-to-date sales were down 14 percent in St. Louis, 19 percent in Memphis, 20 percent in Little Rock, and 22 percent in Louisville. Residential construction continued to decline as well. September 2008 year-to-date single family housing permits fell in nearly all District metro areas compared with the same period in 2007. Permits declined 35 percent in Little Rock, 41 percent in Louisville, 42 percent in St. Louis, and 57 percent in Memphis.
Commercial real estate was mixed. The third quarter 2008 industrial vacancy rates in St. Louis and Memphis decreased over the second quarter of 2008, while industrial vacancy rates in Louisville and Little Rock increased. During the same period, suburban office vacancy rates decreased in St. Louis, Little Rock, and Memphis, but increased in Louisville. Downtown office vacancy rates decreased in Memphis and St. Louis but increased in Louisville and Little Rock. A non-residential construction contact in St. Louis reported concerns about current credit market conditions. A commercial construction contact reported that interest in new projects has slowed sharply throughout the District. An industrial construction contact in Little Rock reported that activity has held steady and that, because of the upcoming construction of several facilities related to wind energy, the outlook is positive. A contact in Louisville reported that industrial developers are cautiously optimistic about the fourth quarter.

**Banking and Finance**

A survey of loan officers showed a decline in overall lending activity in the three months ending in October. Credit standards for commercial and industrial loans and for commercial real estate loans tightened, while demand for these loans ranged from unchanged to weaker. Meanwhile, credit standards for consumer loans ranged from tightened somewhat to unchanged, while demand for these loans was also weaker. Demand for all types of residential mortgage loans was moderately weaker, while credit standards for these loans tightened somewhat.

**Agriculture and Natural Resources**

Good weather conditions helped farmers make significant progress with harvesting, which was nearly finished as of mid-November. Between October and November, yield estimates for crops changed by less than 6 percent except for cotton in Arkansas (which decreased by 10 percent), sorghum in Illinois and cotton in Tennessee (both increasing by about 10 percent). Most District states were ahead of normal with winter wheat planting, but crop growth was slightly behind normal in most states. Similar to last year, at least 90 percent of the winter wheat in each state with available data was rated fair or better.
NINTH DISTRICT--MINNEAPOLIS

Ninth District economic activity contracted since the last report. Decreased activity was noted in consumer spending and tourism, services, construction and real estate, manufacturing and mining. However, the energy sector was mixed and agricultural conditions improved since the last report. Labor markets continued to weaken. Overall wage increases were modest, while a number of product prices decreased.

Consumer Spending and Tourism

Consumer spending decreased. A major Minneapolis-based retailer reported that same-store sales in October were down almost 5 percent compared with a year earlier. Furthermore, a major Minnesota-based electronics retailer reported that October same-store sales were down almost 8 percent from a year ago. A North Dakota mall manager reported that sales during the first half of November were down but sales were up 3.5 percent in October. A number of retailers were pessimistic about the upcoming holiday sales season. According to preliminary results of the Minneapolis Fed’s annual business outlook poll, 85 percent of respondents expect consumer spending to decrease in their communities in 2009 compared with 47 percent in last year’s poll.

Tighter credit standards for auto loans hindered some vehicle sales. According to an auto dealers association in Minnesota, recent vehicle sales were down; smaller, fuel-efficient cars continued to gain market share, while larger SUVs and trucks lost. Early November auto sales were “awful,” according to a Minnesota dealer of domestic vehicles.

Fall tourism was down modestly compared with a year ago, although some tourism businesses were cautiously optimistic for the winter season due in part to lower gas prices. In South Dakota, fall tourism was off slightly; some cancellations were noted at hunting reserves in the eastern part of the state, according to an official. Meanwhile, in northwestern Wisconsin, tourism activity was relatively strong, although some high-end restaurants and retailers noted sharp declines in business.

Services

Activity in the services sector decreased since the last report. Services industry respondents to the Minneapolis Fed’s business outlook poll expressed disappointing results and expect decreased sales, employment and capital investment in 2009. Contacts from architectural and information technology firms reported a slowdown in new business. However, professional business firms dealing with financially distressed companies and bankruptcy lawyers were the most optimistic and were experiencing a boom in business.
Construction and Real Estate

Construction activity decreased. Results from the business outlook poll indicated that 73 percent of construction industry respondents expect sales to be down in 2009, and 71 percent expect to decrease investment. In the Duluth, Minn., area, large projects that have been started are continuing forward, but projects on the drawing board have been delayed, according to a Bank director. Residential construction was down slightly. October residential permits in Sioux Falls, S.D., and Fargo, N.D., were down 13 percent and 21 percent, respectively. Residential permits in Minneapolis-St. Paul were flat from a year earlier.

Commercial real estate slowed. A contact from a Minneapolis-St. Paul commercial real estate firm said tighter financing is constraining sales, while a contact in Fargo said activity was flat. Residential real estate remained depressed. Home sales in Sioux Falls were down 8 percent, and a Realtor in western Montana estimated sales were down more than 20 percent. October closed sales in the Minneapolis-St. Paul area increased 12 percent from the previous year, but prices continued to slide.

Manufacturing

Overall manufacturing activity was down since the last report. Based on results from the business outlook poll, respondents from the manufacturing sector expect decreased sales, employment and capital investment in 2009. According to preliminary results of a November survey of manufacturers by the Minneapolis Fed and the Minnesota Department of Employment and Economic Development, manufacturers expect declining orders, employment and production in 2009 after a flat 2008. Meanwhile, an October survey of purchasing managers by Creighton University (Omaha, Neb.) indicated significantly decreased activity in Minnesota, but increased activity in the Dakotas.

Energy and Mining

Activity in the energy sector was mixed, and the mining sector contracted since the last report. Oil and gas exploration continued at a strong pace, but showed some recent signs of weakening. Wind energy farms continue to be built; however, several bioenergy facilities were shut down due to lower output prices and high input costs. Several mines in the District reduced production due to decreased metal prices. For example, two iron ore mines in northern Minnesota cut production by 30 percent.

Agriculture
Agricultural conditions improved since the last report. Results of the Minneapolis Fed’s third-quarter (October) survey of agricultural credit conditions indicated that lenders expect overall agricultural income and spending to be up in the fourth quarter. Even though the harvest is behind the pace of a year ago for most major District crops, production is expected to increase for corn and remain level for soybeans from last year’s bumper crop.

**Employment, Wages and Prices**

Labor markets weakened since the last report, as a number of companies announced layoffs. For example, a Minnesota vehicle manufacturing plant will lay off 760 workers during December. Also in Minnesota, a health care provider announced plans to eliminate up to 350 jobs, a provider of semiconductor equipment recently announced plans to lay off 200 employees over the next 12 to 15 months and a lumber plant closed in October for an indefinite period affecting 140 workers. A residential window manufacturer announced plans to lay off 52 employees at a plant in northwestern Wisconsin. A Montana lumber mill laid off 23 employees. Initial claims for Minnesota unemployment insurance were up 31 percent in October compared with a year earlier. Employers in the Billings, Mont., area expect to keep staff levels about the same over the next six months. In contrast, contacts in North and South Dakota reported trouble finding skilled workers.

Wage increases were modest. More than 40 percent of business outlook poll respondents expect wages to increase 1 percent or less in their communities during 2009. The outlook for wage increases in most sectors is flat to up slightly.

A number of prices decreased since the last report. Minnesota gasoline prices in mid-November were more than $1.50 per gallon lower than prices at the end of September and $1.10 lower than a year ago. Lumber prices decreased from the last report and from year ago. A Bank director noted that agricultural input prices, including fertilizer and fuel, were recently decreasing, but so were agricultural commodity prices. Aluminum, copper and steel prices were also down. A Minnesota manufacturer noted success in passing along input cost increases to customers, but will likely lower prices going forward.
The Tenth District economy weakened in October and November. Consumer spending and manufacturing activity declined, and the slowdown in commercial real estate intensified. Residential real estate activity continued on a downward trend and the energy sector slowed moderately, while agricultural conditions were largely unchanged. Bankers reported tighter credit standards, lower loan demand, and weaker loan quality. Most business contacts expressed little optimism about economic activity going forward. Price pressures eased further with falling energy prices, and wage pressures diminished due to weakness in the labor market.

**Consumer Spending.** Consumer spending slowed sharply in October and November, and expectations for future activity also diminished. Retail sales fell from the last survey period, and most retailers expected a continued downward trend going forward. Store managers reported a slowdown across nearly all spending categories, with luxury items especially weak. Store inventories remained fairly flat, however, as the recent weak sales were largely expected. Auto sales also dropped from the previous period, with continued weakness expected in the months ahead. Several auto dealers noted strong demand in the used car market, but many contacts cited increased difficulties in obtaining financing for used cars. Travel and tourism activity remained sluggish, with several hotel contacts reporting less business travel. Virtually all tourism contacts expected travel activity to weaken further in coming months. Restaurant traffic was down sharply from the previous survey. Several restaurant contacts noted a particular decline in senior citizen traffic, which they attributed to recent losses in retirement income.

**Manufacturing.** Manufacturing activity declined sharply after slowing in the late summer months. Overall production was weak at both durable and non-durable-goods producing plants. Most plant managers reported sizable decreases in shipments, new orders, and order backlogs, and several firms reported recent layoffs or temporary plant shutdowns due to falling demand. Expectations for future factory activity also dropped considerably, and many firms anticipated declines in revenues for 2009. Some contacts noted that tight credit markets had prevented customers from moving forward on planned projects. Export orders continued to fall
from high levels posted in the first half of the year, but some contacts expected a slight rebound in exports heading forward.

**Real Estate and Construction.** Residential real estate activity weakened further in October and November, while the slowdown in commercial real estate activity intensified. Home sales decreased from the previous survey, and expectations for future sales were also sluggish. Real estate agents reported higher demand for lower-priced homes than for homes in the mid to upper-level price range. Home inventories stabilized somewhat, but still remained at very high levels. Residential construction activity slowed, with several contacts reporting an increase in builder bankruptcy filings. Mortgage origination loans declined further, and contacts reported a considerable drop in home refinancing. Commercial real estate activity fell across the District, and future expectations remained weak. Contacts cited much tougher lending restrictions and reduced investment activity. Vacancy rates increased substantially from the prior period, and absorption declined further. Rental rates also fell considerably, with levels well below a year ago. Most real estate contacts expected a decrease in revenue growth for 2009 due to slower sales and reduced credit access.

**Banking.** Bankers reported lower loan demand, tighter credit standards, and weaker loan quality since the last survey. The net fraction of banks reporting a decline in overall loan demand was substantially greater than in the previous survey, and demand was reported to be down for all major loan categories except agricultural loans. Most community banks reported no signs of customers drawing down lines of credit, but some large companies reported using credit lines with large banks due to strains in commercial paper and bond markets. About the same fraction of banks as in the last survey said they had tightened credit standards, and such tightening remained especially high for commercial real estate loans. Assessments of current loan quality were similar to the last survey, but expectations for future loan quality declined. Just under half of respondents reported increases in deposits, and most attributed the increases to a flight to quality. One bank noted that availability of deposits had become a much bigger constraint on its lending than capital, due to aggressive competition for funds from large institutions.
Energy. Energy activity moderated somewhat, as oil and natural gas prices fell further. Most contacts reported a decrease in drilling activity, though generally from very high levels. Producers’ expectations for future drilling also dropped markedly, with several contacts expecting the national rig count to fall by approximately 25 percent over the next year. Natural gas wellhead prices were especially low in some areas of the District, due to full pipelines. While most contacts expected a modest rise in oil and natural gas prices in coming months, several noted risks to a rebound in regional drilling in 2009. These included increased productivity of recently deployed rigs, the return of previously shut down Gulf Coast production, and the potential for weaker than expected demand.

Agriculture. Agricultural conditions held steady in October and November. The fall harvest was almost complete and winter wheat emergence progressed normally. Above-average corn and soybean yields, especially in Nebraska and Kansas, helped support farm incomes. A drop in cattle and hog prices due to slower domestic and export meat demand squeezed profit margins for livestock operators. Farm loan demand strengthened with rising input costs, and the availability of funds for operating loans fell modestly. District contacts reported increased collateral requirements for farm loans and expected further tightening in credit conditions in coming months. After a seasonal summer pause, farmland values moved higher this fall.

Wages and Prices. Price pressures eased further in October and November, and wage pressures were limited due to softer labor markets. Manufacturers reported a sharp deceleration in raw materials prices, and fewer producers than in previous surveys planned to raise selling prices. One contact noted that steel prices—for rebar and scrap metal—had dropped approximately 30 percent since the last survey. Overall retail prices were generally stable, but some contacts expected prices to moderate in coming months. Fewer firms than in previous surveys reported labor shortages, resulting in minimal wage pressures. Many contacts indicated wage growth in 2009 would be less than in past years due to uncertain economic conditions and lower forecasted revenue growth.
ELEVENTH DISTRICT—DALLAS

There was a broad-based weakening of the Eleventh District economy in October and the first half of November. While there were a few exceptions, most businesses reported declines in production and/or new orders. Both manufacturing and staffing services noted a particularly sharp reduction in activity. Many contacts reported that they were being impacted by the weakness in the national economy and the crisis in the credit markets. Almost all respondents voiced concern about the near-term outlook with expectations of improvement ranging from about four to twelve months away.

**Prices.** There has been a broad-based easing of price pressures since the last survey. Many respondents reported that they resisted price cutting pressures from their customers but that they expected to lower prices over the next several months. Many respondents, particularly in durable goods manufacturing, said that they had not yet passed on cost increases from the beginning of the year and that even though costs had fallen in recent months, margins were still slim. Retailers reported that they had begun to offer discounts earlier than normal in anticipation of a weak holiday season.

In mid-November crude oil prices dropped below $50 per barrel from near $90 in early October. Oil product prices have fallen along with crude oil, as gasoline prices at the pump are down by about 40 percent and diesel is down by 30 percent. Natural gas prices have held steady at around $6.50 per thousand cubic feet although contacts said that if the winter is mild it is likely that prices will fall.

**Labor Market.** Many respondents reported that they were cutting hours and temp positions and that overall employment was flat to down. Job cuts were particularly pronounced in the manufacturing sector. Two out of three respondents in the paper industry said that they were cutting at least 10 percent of their workforce. Many respondents said that while conditions had weakened that they were trying to hold on to their skilled workers. Several companies had requested that their employees voluntarily reduce hours or take days off without pay. The main exception was accounting firms which continued to add staff but at a slower pace. Staffing services reported a significant decline in demand for temporary workers. Most industries reported little if any wage pressures.

**Manufacturing.** Most manufacturers reported declines in activity since the last survey and did not expect improvement until at least the first quarter of 2009. Most producers said that their inventories are lean and near desired levels.

Construction-related manufacturers reported falling activity due to continued low demand from residential builders and a drop off in demand from commercial construction. Producers of stone, clay and glass reported that demand fell sharply since the last survey. Primary and fabricated metal producers report that production has remained relatively flat but that new orders are down significantly. Many contacts expressed concern that commercial builders no longer have access to credit which will likely reduce demand for construction-related materials well into 2009.
Respondents in high-tech manufacturing report that orders have weakened since that last survey. Orders from businesses for high-tech machinery and equipment fell sharply. Demand for consumer products was moderately weaker with some low-end electronics seeing some strength. Contacts reported that they were surprised by the sudden weakness in demand from businesses in Asia although consumer demand appears to be holding up. Most respondents reported that inventories were near desired levels, although one respondent noted that they were above desired levels and that they will be paring them down over the next few months. Respondents expect demand from businesses to continue weak for six to twelve months and consumer demand to improve near the second quarter of 2009.

Paper manufacturers reported continued declines in demand, with corrugated boxes particularly weak. There were several industries that were exceptions to the recent decline in activity. Food processors reported that demand increased since the last survey. Demand for emergency services vehicles continues to be strong and aircraft parts contacts anticipate increased orders over the next several months.

**Retail Sales.** Overall retail sales softened since the last survey although respondents said that conditions remain better than most areas in the country. Discount stores are not slowing as much as department stores. Respondents report that the average dollars spent per customer is falling. This is consistent with reports that nondiscretionary items are driving sales and big ticket items like electronics and house wares have been hit especially hard. This trend is expected to continue through the holiday season and many respondents said they are cutting back capital expenditures for 2009.

Auto dealers report that sales and traffic have dropped further from the low levels six weeks ago. Most respondents think the market will continue to be very weak at least until mid-2009 and are keeping inventories at a bare minimum.

**Services.** Staffing firms report that they are seeing weakness across a wide range of industries. Contacts report that some positions have been eliminated and others are taking longer to fill. Demand is mostly for contract work and short-term assignments while orders for direct hires have dwindled. Sales at accounting service firms continues to grow at a moderate pace and contacts say they are cautiously optimistic about demand over the next few months. Demand for legal services has been steady to slightly weaker. Transactional demand is weak, particularly for banks and real estate firms, while litigation and bankruptcy activity remains strong. Legal firms report that receivables are slowing and getting more difficult to collect.

Airlines report that business demand has declined and future bookings suggest continued weakness over the next several months. Demand for barge services has slowed and contacts said they expect conditions to weaken further in the months ahead. Intermodal services and railroads reported decreased volumes. Railroads said that there were significant declines in shipments of construction-related materials, autos, pulp and paper, petroleum products and chemicals.
Construction. Housing market conditions worsened significantly over the past six weeks, according to contacts. Homebuilders said sales in October and early November were extremely weak and current traffic is nonexistent. There were reports of buyers walking away from their new homes, forfeiting their deposits. Respondents noted consumers’ concerns about the financial and economic environment have them in survival mode; the last thing on their minds is buying a home. Builders continued to curb new construction.

Elevated foreclosures and large price incentives from some builders exerted downward pressure on prices. Home values have held up relatively well in Texas markets, and the recent dips remain modest compared to other parts of the country, say contacts. Respondents said apartment demand remains relatively solid and rental growth remains positive but slower.

Commercial real estate contacts said leasing activity and investment continue to be hampered by credit conditions. Businesses have abruptly halted leasing and expansion decisions, as they take a wait-and-see approach. The commercial investment market has ground to a halt with lenders unwilling or unable to lend and investors unwilling to take any risk. On a bright note, contacts noted businesses were acting orderly and pragmatically, just waiting for things to bottom out, and were not behaving in a panic mode.

Financial Services. Financial industry contacts report that fewer single-family and commercial real estate deals are getting done. Consumer lending is somewhat softer with credit card sales volume decreasing, and some deterioration in overall loan quality. Contacts foresee a weak, highly-uncertain economy and continue to evaluate potential borrowers with the same high level of scrutiny as reported in the last survey. Credit standards remain tight and banks are being extremely careful about double-checking the quality of every deal they make. While credit unions are also being extremely careful, they said that they have been slightly more aggressive. Downsizing in staff is occurring at a number of institutions, both as a result of mergers/acquisitions as well as the weak economy. While the cost of capital is still elevated, larger institutions reportedly feel less constrained after receiving TARP money and somewhat more comfortable supplying loans. At the same time, it’s been harder for many lenders to widen loan interest-rate spreads further over the last six weeks. Several contacts, especially smaller banks, reported stiffer guidelines from regulators making it difficult to forge any new deals. While competition for new deposits is tough, institutions saw an increase in deposits due to a flight to quality from riskier investments.

Energy. Refiners have largely recovered from Hurricane Ike, and have operated in recent weeks at 87 percent capacity utilization, down about 2 percentage points from the same time last year. Oil services and machinery companies are beginning to see the leading edge of a downturn in drilling activity. The price of natural gas in mid-November was high enough to avoid major cuts in drilling. However, the price may be at risk due to ample winter inventories, higher-than-expected Canadian
supplies, US production up 6 percent over the last 12 months, and recession-reduced industrial loads. Cuts in capital spending have been announced by a number of producers.

Agriculture. Growing conditions in much of the District remained generally favorable. However, contacts said the recent hurricanes caused over $1 billion in crop and livestock losses. There is a lot of fear among agricultural producers about the impact the ongoing financial crisis will have on the cost of credit and their ability to access it when they refinance agricultural loans for 2009. Crop and cattle prices have plummeted since the last survey.
TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District weakened decidedly during the survey period of mid-October through late November. Upward price pressures eased overall because of declines in the prices of energy and some commodities and widespread discounting in the retail sector. Most retailers struggled with unusually weak demand on a seasonal basis, and demand for services continued to fall. Manufacturing activity slowed further. Agricultural sales generally continued at a brisk pace, but energy providers faced declining demand and falling output prices. Activity in District housing markets remained weak on net, and demand for commercial real estate continued to erode. Contacts from financial institutions reported weaker loan demand amidst sharply restricted credit availability and further tightening of lending standards.

Wages and Prices

Upward pressures on prices moderated during the survey period. Prices continued to fall for energy and selected commodities, including many food products and raw materials, and contacts noted declines in the prices of transportation services. Despite widespread declines in input prices, a few contacts noted the continued pass-through of past increases to final prices. Extensive discounting held down final prices for many retail items, and retailers anticipate further discounting, in line with expectations for an unusually weak holiday spending season.

Upward pressures on wages have largely disappeared. Contacts reported job cuts and hiring freezes across a wide range of industries, causing unemployment to rise in most areas. The few open positions have been attracting large numbers of applicants, thereby alleviating upward wage pressures. Wage gains have slowed markedly for worker groups who previously had seen rapid growth, notably those skilled in the use of advanced technologies.
Retail Trade and Services

Retail sales deteriorated further, and contacts expect significantly weaker holiday spending than in prior years. While sales remained largely stable for necessities such as food, contacts reported further declines in sales of big-ticket discretionary items such as furniture and household appliances and luxury items such as jewelry. Sales also slowed for electronic items and outdoor equipment, which had shown growth in recent survey periods. The sales slowdown was especially pronounced for traditional department stores, which have reduced inventories accordingly, but discount chains fared much better as consumers switched away from high-priced items. Sales fell further for all types of automobiles, and limited credit availability remained a significant constraint on purchases.

Demand for services declined further compared with the previous survey period. Providers of health-care services reported slower activity and concerns over their ability to issue debt to fund needed capital spending. Sales continued to weaken for providers of professional services such as advertising, legal services, accounting, and consulting. Providers of real estate services such as title insurance reported very low levels of activity, with further reductions in some areas. Travel activity fell in major District destinations: contacts from Southern California reported a rising incidence of canceled corporate meetings, and tourist visits and spending have dropped sharply in Hawaii. Restaurants throughout the District have seen their business drop off; some have closed, and more closures are expected in coming months.

Manufacturing

District manufacturing activity slowed further during the survey period of mid-October through late November. Makers of semiconductors and other information technology products reported a recent slowdown in sales due to a drop in domestic and overseas demand. Producers of wood products continued to struggle, with one contact describing the current lumber market as being the “worst in 25 years.” Capacity utilization rates at petroleum refineries remained well below their longer-term average. Metal fabricators faced weak demand, which was held down in
part by constraints on their customers’ access to financing. One bright spot was manufacturing activity for commercial aircraft makers, which resumed at high levels following the resolution of a protracted labor dispute. Demand remained strong for food manufacturers, although signs of weakening have emerged of late. Firms in manufacturing and other sectors reported further curtailments of recent and planned capital spending.

**Agriculture and Resource-related Industries**

Demand remained strong for agricultural producers but weakened for providers of natural resources. Although sales continued at a brisk pace for most agricultural products, significant declines in some output prices and higher financing costs put increased pressure on margins. Among oil extractors, weaker demand and lower output prices have reduced the viability of higher cost expansion projects, causing many to be delayed or shelved.

**Real Estate and Construction**

Activity in the District’s housing markets remained weak on net, and demand for commercial real estate eroded further. Home sales were spurred in some areas by the availability of foreclosed units at rock-bottom prices, but the overall sales pace continued to be quite slow in most areas and fell considerably in some, such as parts of the Pacific Northwest. Foreclosure rates remained elevated in parts of Arizona, California, and Nevada, and they rose further in other states, notably Utah and Idaho. Demand for commercial real estate declined, with increases in office and industrial vacancy rates reported for various cities. Contacts reported limited investment in new commercial properties, due in part to constraints on credit access.

**Financial Institutions**

District banking contacts reported that lending activity and credit conditions weakened significantly during the survey period. Demand for commercial and industrial loans continued to fall, with the decline characterized as sharp in some areas, and new residential mortgages stayed
stuck at low levels. Contacts reported that loan delinquencies and credit losses rose moderately during the survey period. Although some banks reported no reduction in their ability to provide credit in recent months, credit access remained quite restricted in general: banks and other financial institutions maintained tight standards for all types of loans, and even high-quality borrowers faced substantial impediments to acquiring funds through debt and private equity.