For use at 2:00 p.m., E.S.T.
Wednesday
March 5, 2008

Summary of Commentary on ________________________

Current Economic Conditions

By Federal Reserve District

February 2008

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

FEBRUARY 2008

TABLE OF CONTENTS

SUMMARY[1]

Reports from the twelve Federal Reserve Districts suggest that economic growth has slowed since the beginning of the year. Two-thirds of the Districts cited softening or weakening in the pace of business activity, while the others referred to subdued, slow, or modest growth. Retail activity in most Districts was reported to be weak or softening, although tourism generally continued to expand. Services industries in many Districts, including staffing services in Boston, port activity in New York, and truck freight volume in Cleveland, appeared to be slowing, but activity in services provided some positive news in Richmond and Dallas. Manufacturing was said to be sluggish or to have slowed in about half the Districts, while several others indicated manufacturing results were mixed or trends were steady.

Residential real estate markets generally remained weak; reports on commercial real estate markets were somewhat mixed, but also suggest slowing, on balance, in many Districts. Most Districts reporting on banking cite tight or tightening credit standards and stable or weaker loan demand. Districts reporting on the agriculture and energy sectors said activity is generally strong.

Upward pressure on prices from rising materials and energy prices was noted in almost all the District reports, but Philadelphia said increases in input costs and output prices had recently become less prevalent, and San Francisco indicated pressures were limited for products other than food and energy. By contrast, wage and salary pressures were generally said to be modest, as the hiring pace slowed in various sectors and labor markets loosened somewhat in many Districts.

Consumer Spending and Tourism

Reports on retail spending were generally downbeat, although Boston, St. Louis, and Dallas described sales as mixed and Kansas City reported that consumer spending was “largely unchanged” since the previous survey period. The majority of Districts characterized sales as below plan, downbeat, weak, or having softened. Among product categories, apparel sales were soft in New York, Philadelphia,

---

[1] Prepared at the Federal Reserve Bank of Boston and based on information collected on or before February 25, 2008. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

and Richmond, but strong in Boston. Several Districts noted declines in sales of big-ticket and/or home-related items.

Districts commenting on vehicle sales described them as slow or sluggish, with little exception. Contacts in Dallas attributed an uptick in auto sales to increased advertising and incentives. Chicago dealerships reported some increases in used car sales in February. Dealers in the Philadelphia District expected sales to increase later in the year, but Cleveland did not expect significant change in the upcoming months.

The majority of reports on tourism were positive, on balance, although most Districts mentioned some areas of softening. The San Francisco District commented that while tourism in Hawaii had fallen from previous levels, activity in California remained stable, partly because of growing foreign travel resulting from the lower exchange value of the U.S. dollar. Minneapolis reported an increase in tourism activity generally relating to winter sports. Tourism and travel in Kansas City, Atlanta, New York, and Chicago were also mostly positive.

Nonfinancial Services

Reports from nonfinancial services industries were mixed. Health-care services expanded in the Richmond, Minneapolis, and San Francisco Districts, while contacts in the St. Louis District reported a softening and plans to lay off workers. Software and IT services respondents in Boston reported modest growth.

Available reports from staffing firms pointed to mixed demand for temporary labor. The Boston, New York, Richmond, and Atlanta Districts reported weaker staffing requests relative to a year ago; Cleveland, Chicago, and Dallas reported stable to increased demand. Boston noted increased demand from the biopharmaceutical and aerospace industries, while Dallas contacts saw an increased demand for temporary workers in IT, engineering, and oil-related services. A large New York employment agency found that despite widely announced layoff plans at financial firms, they saw no noticeable increase in the number of job candidates. Boston and Atlanta noted improved labor supply.

All Districts reporting on transportation services noted weaker activity in the first quarter of 2008 compared with the previous quarter. Trucking and shipping respondents from the Richmond and Dallas Districts reported declining import volumes, which more than offset growth in exports, stimulated by the depreciation of the dollar. However, airlines in those Districts in reported higher passenger volumes since the start of the year.

Manufacturing

Reports on the manufacturing sector were mixed but, on the whole, subdued. New York, Philadelphia, Richmond, Kansas City, and Dallas indicated that production or shipments were sluggish or falling. Atlanta, Minneapolis, and San Francisco characterized activity as varying across industries. Boston, Cleveland, and Chicago indicated stable levels or trends. Only St. Louis noted a strengthening relative to prior reports.

Various Districts cited strong demand for steel, aircraft and parts, energy-related equipment, and exports, but mostly continued weak markets for products and equipment used for building and furnishing homes. Atlanta, Chicago, and Dallas indicated that automotive production and sales have been light or declining. On the other hand, the Cleveland District saw an uptick in the production of foreign nameplates during January, and St. Louis was anticipating additional capacity and employment in automotive parts manufacturing. Dallas reported that refining production fell in the face of weak margins. Reports on food processing were mixed, with some Districts indicating that high prices were constraining demand, while others cited rising demand. Boston and New York mentioned that some manufacturers are experiencing slower payments from their customers.

All Districts commenting on the near-term outlook mentioned caution or concern on the part of at least some segments of manufacturing. Boston, Philadelphia, Kansas City, and San Francisco indicated that some firms are adjusting their hiring or capital spending plans downward. A couple of Districts mentioned risks associated with financing constraints. For example, Chicago cited concerns on the part of the auto industry that tight credit would cause its customers to become more price-sensitive and less able to obtain car loans.

Real Estate and Construction

Residential real estate markets were generally weak over the last couple of months. Sales were low in every District with very few local exceptions. Sales declines were particularly large in the Boston, Minneapolis, Richmond, and St. Louis Districts; at least some respondents in each of these Districts reported drops in home sales of more than 20 percent year-over-year. Contacts in the Chicago, Kansas City, and Philadelphia Districts cited tight credit conditions as a reason for low sales; each of those Districts either reported or expected stabilization of demand for homes in the low and mid-price ranges.

Districts that reported home prices all saw overall declines; one exception was the Manhattan co-op and condo market, where prices increased 5 percent compared with a year ago. Inventories remained high as demand was still fairly low. A few contacts in the Chicago, Cleveland, and Richmond Districts reported an increase in inquiries, although this increase in traffic had not yet translated into increased sales. Residential construction declined or remained at low levels in most Districts.

The markets for office and retail space showed signs of a slowdown in several Districts. Office vacancies were reported up, and leasing volumes down, in Manhattan, Baltimore, Washington, D.C., Memphis, portions of Maine and Rhode Island, and Las Vegas. Districts indicated that office vacancies held steady in Boston and the Carolinas, and were down in Philadelphia and in the Minneapolis and St. Louis Districts; however, contacts in the Boston and Philadelphia Districts and see some emerging slack. Office rents were mixed, however, coming in about flat in greater Boston and Manhattan, either flat or down in the Richmond District, and up in Philadelphia. Retail vacancy was reported up in the Minneapolis District and retail space demand was described as slow in the Chicago District. Demand for industrial space was described as either “firm” or “flat” in the Districts commenting on that sector.

Sales activity in nonresidential markets was down in the Boston, Dallas, Kansas City, and Chicago Districts, with contacts citing tight credit conditions as a major factor. Office sales activity remained strong, however, in the major cities of the New York District and in the San Francisco District. Eight of the twelve Districts reported that nonresidential construction activity was slow; countering these reports, the Cleveland, Dallas, and San Francisco Districts indicated that construction remained strong.

Banking and Finance

Reports on loan demand for commercial, industrial, and residential mortgage loans varied across Districts. Overall loan demand was flat in San Francisco and weakened in the Kansas City, St. Louis, Dallas, New York, and Richmond Districts. Consumer lending was flat or declining in the St. Louis, Chicago, and Cleveland Districts. Commercial and industrial loan demand was mixed in San Francisco and remained stable or declined in the Kansas City, St. Louis, Dallas, New York, and Richmond Districts. By contrast, the Chicago and Cleveland Districts reported increased business lending. Even as loan demand for new residential mortgages remained sluggish or declined, lower interest rates prompted increases in refinancing of existing mortgages in a number of Districts, including San Francisco, St. Louis, New York, Richmond, Atlanta, Cleveland, and Chicago. Cleveland cited a small rise in delinquencies, especially for real estate loans, and Atlanta reported an increase in mortgage delinquencies and foreclosures. New York, on the other hand, saw a rise in delinquencies for all loan categories except residential mortgages, which were unchanged. Tight credit standards were reported in the Atlanta, San Francisco, Kansas City, St. Louis, Chicago, Dallas, Richmond, and New York Districts. Kansas City indicated a worsening of overall loan quality, Chicago reported a deterioration of consumer loan quality, and Cleveland also saw a decline in credit quality for business customers and consumers. By contrast, Dallas reported sound credit quality.

Agriculture and Natural Resources

The Chicago, San Francisco, Minneapolis, St. Louis, and Dallas Districts reported strong conditions in the agriculture sector, including high prices for winter wheat, corn, soybeans, sorghum, and hogs, and increased production of some crops. By contrast, Atlanta and Richmond indicated that although recent rain had improved conditions in Maryland and Virginia, drought conditions persisted in other areas, and range pasture conditions remained poor. Farm incomes and/or value of production rose in several Districts during 2007, although Kentucky farmers saw no change and Tennessee farmers saw declines compared to 2006. Increases in input costs, including prices of fuel, fertilizer, and feed were mentioned by Chicago, Minneapolis, and San Francisco as potentially affecting future production and incomes; Chicago and Dallas also cited recent weather-related problems that threaten production this spring. Increases in the value of farmland were reported by Chicago and Minneapolis.

All Districts reporting on energy cited robust levels of activity and steady or higher prices; in addition, Kansas City and Cleveland mentioned increases in hiring. However, Dallas noted that drilling had flattened domestically and declined in the Gulf of Mexico, leaving activity outside of North America to drive future growth, while Kansas City, Cleveland, and Minneapolis expected exploration and capital spending to increase going forward. Rates for durable equipment, and drilling and evaluation services were reported to be flat to declining. However, price pressures, regulatory costs, and tightening credit were mentioned as providing possible future impediments to increased production.

Prices and Wages

Business contacts in many Districts cited price pressures from vendors and mixed success in raising their own prices to recoup the increased costs. Manufacturing contacts in the Richmond, Atlanta, Chicago, Cleveland, Minneapolis, Kansas City, and Dallas Districts pointed to rising costs for raw materials or other inputs, while manufacturing firms in the New York District reported more widespread increases in prices paid "than in well over a year." By contrast, Philadelphia noted somewhat less prevalent increases in input costs and output prices in February than in January, except for increased mention of rising prices for imported goods. Upward pressures on input costs from high or rising energy prices were frequently cited, which also translated into increased transportation and shipping costs. Price increases for metals, petrochemicals, and food were also mentioned often. The San Francisco District, however, indicated that price pressures were limited except for food and energy. Firms' ability to pass along cost increases by raising selling prices varied. The Boston District noted that retail contacts were passing some price increases on to customers, and some manufacturers were raising selling prices to partially offset rising costs; half the manufacturers contacted in the Cleveland District had raised prices or added surcharges since the previous report. The Dallas and Atlanta Districts reported that some firms raised prices but others were constrained by competitive pressures; Chicago indicated that contacts outside of construction and retail were passing cost increases along to customers. In the Kansas City District, factory goods' prices had escalated, but retail prices were mostly stable.

Most Districts indicated that contacted businesses reported limited wage pressures, moderate wage increases, and some loosening of labor markets. While Atlanta, Boston, Chicago, and San Francisco noted short supplies of selected types of skilled labor relative to demand, they and the New York, Richmond, Kansas City, and Dallas Districts cited pullbacks in the pace of hiring by some firms. Furthermore, several Districts, including New York, Philadelphia, St. Louis, and Atlanta, reported increased prevalence of layoffs, reductions in work hours, or hiring freezes.

FIRST DISTRICT – BOSTON

First District retailers and manufacturers indicate their sales and revenues continue expanding or contracting mostly as in recent reports, but downside risks have become more prominent. Contacts at software and information technology services firms and staffing firms point to slower growth. Real estate markets continue to be soft. Price pressures remain an issue, with only a subset of contacts saying they are able to pass cost increases along to their customers, at least partially. Many respondents express concern about how soon and how smoothly turmoil in credit markets will be resolved.

Retail

Retail respondents in the First District cite mixed sales results for the months of January and February. Retailers report that sales of home-related and big ticket items have consistently been down, while sales of apparel, shoes, accessories, televisions, and sporting goods are strong. However, two respondents are concerned about credit market turmoil and its potential effects on their customers.

Inventory levels and employment are generally stable. Capital spending is mixed. A majority of contacted First District retailers mention varying degrees of price pressure, with several respondents pointing specifically to vendor items and their own operating costs related to oil. A few respondents note modest increases are being passed along to consumers where possible, or say they expect to raise prices in the near future.

Overall, First District retailers are cautious in their outlook and expect 2008 to be challenging. At the same time, many are confident in their ability to pull through this period of economic uncertainty.

Manufacturing and Related Services

For the most part, manufacturers and related services providers headquartered in the First District report unchanged revenue trends in fourth quarter 2007 and early 2008, but they indicate that downside risks have risen. A capital goods manufacturer is experiencing somewhat slower payments from customers and cites anecdotal evidence that highly-leveraged commercial real estate developers may have to curtail their purchases. A biotech equipment maker is experiencing year-over-year declines in sales to some of its largest customers. Suppliers to the home construction industry mostly indicate they do not see demand bottoming out before year-end. Many manufacturers have experienced robust overseas sales because of foreign economic growth or dollar depreciation, but some see signs that these factors will not be quite as favorable in 2008 as they were in 2007. Several firms are making efforts to reduce inventories.

Manufacturers continue to voice concerns about high, rising, or volatile materials costs, especially metals and petrochemicals; per-unit energy costs also are said to be high. Manufacturers are anticipating that input costs will remain high or increase further in coming months. Respondents generally indicate that their selling prices are either stable or rising to offset cost increases to some degree.

Manufacturers continue to adjust their U.S. headcounts only minimally. However, various firms have become more cautious with respect to hiring. One contact that expanded its headcount in fourth quarter 2007 is planning to hold employment steady in the first half of 2008 because of uncertainty.

Another respondent that held its employment constant over the last several months is unlikely to continue to do so in the face of mounting pressures to cut costs. Average pay increases are expected to remain in the range of 3 percent to 4 percent, but several firms are planning somewhat higher pay raises in 2008 than in 2007. On the whole, contacts say their capital spending for 2008 is likely to be normal or steady.

Many manufacturers express growing concerns of one sort or another about financial markets for their own firm or its customers, or in the broader economy. For example, one respondent is concerned about the liquidity of its investments in light of pending payment commitments. Several contacts say they are thankful that their company's capital needs are limited, given current terms and availability.

Software and Information Technology Services

All software and IT services contacts in the First District report modest year-over year quarterly revenue growth for the most recent quarter, although several respondents indicate that some or much of the growth reflects special factors such as foreign currency gains or acquisitions. The majority of respondents are adding technology workers and sales staff, although at a slower pace than in the previous quarter. One firm notes a decline in turnover rates, while a few other contacts report that the labor market appears to have eased. All contacted firms have raised pay, generally by around 4 percent annually.

The majority of New England software and information technology firms are projecting revenues to continue growing at current rates. However, several note that downside risks have increased.

Staffing Services

Staffing respondents in the New England region give mixed reports on the level of business activity this quarter. The majority of firms are experiencing what one contact described as "a marked slowdown" after a busy holiday season, but year-over-year revenues have remained the same or increased, with one report of a 16 percent revenue rise in January 2008 as compared with January 2007. Respondents indicate high labor demand from the biopharmaceutical and aerospace industries, with particular need for data management hires. Labor supply has improved, but highly-skilled applicants for senior-level positions are still in short supply.

Most firms are taking new measures to attract clients, through strategic marketing initiatives, partnerships with other companies, and transitions from print to web advertising. Respondents report stable or increasing costs, with the primary increase being health insurance for employees. The main concern expressed by nearly all respondents is the health of the overall national economy. Contacts fear that instability will lead firms to delay new projects, with "trickle-down effects" in other sectors, including staffing. Despite this concern, respondents are hopeful for growth in upcoming quarters.

Commercial Real Estate

Contacts report that the financing situation for commercial real estate continues to worsen. They say the commercial mortgage-backed securities market remains largely dormant, with the exception of one successful offering of a group of mortgages on multifamily properties. Life insurance lenders have also pulled back significantly from commercial real estate lending in the past couple of months; one contact surmises they are rationing credit now to conserve their limited capacity for later in the year. A small bank in Boston reports a 30 percent increase in its commercial lending volume over last year, mostly in refinancing, but says it may reach its lending limits before the end of the year. Equity requirements have been pushed up to as high as 40 percent by some lenders. With buyers facing such tight credit, very few sellers are putting properties up for sale and very few deals are closing, making it difficult to assess price changes.

Leasing volume has remained steady or slowed in New England. In the downtown Boston office market, rents appear to be holding. The same goes for Hartford and Providence, but rents continue to fall gradually in Maine. Contacts see retailers eliminating underperforming locations and pulling back on commitments to new stores, but with no dramatic rise in overall retail vacancy or fall in rents. Rhode Island has some of the highest commercial vacancy rates in the region, up sharply from six months ago.

Contacts expect absorption to hover around zero or slightly negative in the coming months, leading to gradual increases in vacancy throughout the region. Credit market turmoil is expected to persist into the third or fourth quarter of 2008. Some still characterize Boston as a very desirable market, but others see looming financial sector layoffs taking steam out of its office market in the coming months.

Residential Real Estate

New England residential real estate markets again showed large sales drops in December and January compared to a year ago. Massachusetts single-family home sales decreased 20 percent year-over-year in December while condo sales decreased 28 percent. Home sales also declined around 20 percent year-over-year for Maine in December and Rhode Island in the fourth quarter. New Hampshire saw sales declines of 21 percent in December and 25 percent in January. Contacts say potential buyers lack confidence because of all the talk of a housing “collapse” and broader economic slowdown. A New Hampshire contact says the market for second homes and vacation homes has been hit particularly hard.

Median home prices have declined modestly in New England markets, with prices down 3 percent to 5 percent in December or January from a year earlier in Massachusetts, New Hampshire, and Maine. Prices dropped 6 percent year-over-year in Rhode Island in the fourth quarter. However, median condo prices have held steady in Massachusetts; a contact says this is because the high end of the condo market has been somewhat insulated from general housing problems.

SECOND DISTRICT--NEW YORK

The Second District's economy has softened since the last report. Manufacturers report substantial weakening in business activity as of mid-February. Port activity is also reported to be weaker, while, more generally, contacts outside the manufacturing sector report deterioration in business activity and a pullback in hiring. Retailers indicate that sales have been below plan thus far in 2008, though inventories are reported to be at satisfactory levels. Tourism activity in New York City has shown some signs of slowing in recent weeks but remains strong. Housing markets continue to be sluggish, though Manhattan's co-op and condo market has shown some resilience. Manhattan's office market remains tight, but vacancy rates have edged up and rents have decelerated. Finally, bankers report some continued weakening in demand for new loans but a pickup in refinancing activity; respondents also report ongoing tightening in credit standards and rising delinquency rates, particularly on non-residential mortgages.

Consumer Spending

Retailers report weak sales results for January and, to a lesser extent, for the first half of February. Overall, sales were characterized as below plan and down from a year ago. One chain reports sales of women's apparel as particularly sluggish, while another describes big-ticket home goods as the weakest category. Consumer surveys point to increased pessimism: Siena College's survey of New York State residents shows consumer confidence falling for the fourth straight month and reaching a new cyclical low in January, while the Conference Board's survey of Middle Atlantic residents shows confidence holding steady at a more than 2-year low in January, after falling precipitously in late 2007.

Tourism activity in New York City slowed a bit in early 2008 but was still at a high level. Hotel occupancy rates were reported to be roughly on par with a year earlier in January and early February; prices and total revenues decelerated slightly but were still up 10-12 percent from a year earlier. Broadway theaters report that attendance has been fairly strong in January and early February, rising 3-4 percent from a year earlier; however, total revenues were up just 1 percent, reflecting a decline in the average effective ticket price.

Construction and Real Estate

New York City's office market showed some signs of slackening in January, with some slowing in leasing activity. Manhattan's office vacancy rate rose modestly to 7.6 percent in January, about equal to a year earlier. Asking rents were little changed from year-end 2007 levels and were up more than 20 percent from a year earlier. Office purchase markets across the District have been mixed: sales prices and transactions volumes showed continued strength across most of the New York City area, as well as Albany and Buffalo, but were less robust in northern New Jersey and metropolitan Rochester. The market for industrial properties has shown more widespread weakness across the region.

Housing markets in the District have generally weakened since the last report. New Jersey's housing market is reported to have seen a decline in transactions, with large gaps between asking prices and offers. The inventory of available units remains high but has retreated somewhat, as some sellers have taken their homes off the market. Builders have curtailed most new construction projects; one industry expert cites as a major problem the fact that prices for redevelopment land have not come down in line with home prices.

Manhattan's co-op and condo market is reported to have remained fairly stable in early 2008, with transaction activity roughly on par with a year ago, and prices up by about 5 percent. There was a normal seasonal increase in the inventory of units on the market in January.

Other Business Activity

A major NYC employment agency, specializing in office jobs, reports that hiring activity slowed noticeably in January but picked up in early February and was almost on par with a year earlier. Despite widely announced layoff plans at financial firms, this firm reports no noticeable increase in the number of available job candidates. Large financial firms are reported to be hiring only sporadically but hedge funds and private equity firms are still hiring at a good pace.

New York State manufacturers report that business activity weakened noticeably in January and early February, while employment weakened moderately. Firms also report more widespread increases in prices paid than in well over a year. More than two in five manufacturing contacts indicate that their customers have become slower in paying their bills in recent months, and more than one in five say that they have grown slower in paying their vendors. Port of New York import traffic has reportedly slowed noticeably in early 2008. More generally, non-manufacturing firms in the District report widespread weakening in both general business activity and net hiring activity in January and early February. Firms have also scaled back capital spending plans somewhat.

Financial Developments

Bankers report lower demand for all types of loans—most notably in the residential mortgage category, though to a lesser degree than in January. However, for the first time in more than four years, bankers report an increase in refinancing activity. For all loan categories, respondents indicated a tightening of credit standards, with close to a quarter of bankers reporting higher standards in each category; no bankers report eased standards for any type of loan. Bankers indicate no change, on balance, in the spreads of loan rates over cost of funds—a sizable proportion of respondents reported increases and decreases in each category, but the responses were evenly split. Bankers also report a widespread decrease in the average deposit rate. Finally, respondents indicated a rise in delinquencies in all loan categories except residential mortgages, where bankers indicated no change in delinquencies.

THIRD DISTRICT – PHILADELPHIA

Business activity appeared to be weakening slightly in the Third District in February. Manufacturers, on balance, reported declines in new orders and shipments. Retailers generally reported small year-over-year decreases, and auto sales continued to fall. Overall bank lending has been rising slowly, although some banks reported drops in commercial and industrial lending. Residential real estate sales and construction remained well below the year-ago pace. Commercial construction has eased. Reports of increases in input costs and output prices were somewhat less prevalent in February than they were in January, although reports of rising import prices have become more widespread. Wage increases were reported to be moderate. Several firms in the District noted that they had implemented hiring freezes.

The outlook among Third District business contacts has become less positive. Manufacturers, on balance, expect decreases in new orders during the next six months, although they expect a rise in shipments. Retailers have generally revised their 2008 forecasts down and now expect only slight gains, if any, in sales. Auto dealers expect sales in 2008 to be below sales in 2007. Bankers anticipate very slow expansion in overall lending. Residential real estate agents expect sales to continue to be slow, but they expect to see some signs that the fall in sales might reach a bottom this year. Contacts in commercial real estate anticipate slower leasing activity this year compared with last year. Nevertheless, they expect rental rates, which rose last year, to show little change in 2008.

Manufacturing

Third District manufacturers, on balance, reported falling shipments and new orders in February compared with January. Around one-fourth of the manufacturers surveyed noted increases and around one-third noted decreases. Manufacturers also reported a drop in order backlogs, on balance. Increased demand for their products was reported by makers of apparel and by some producers of industrial materials and equipment. Decreased demand was noted by producers of lumber products, furniture, construction materials, and metals. Several manufacturers noted that their business was being adversely affected by declining residential construction activity. They reported that demand for their products from the “housing and housing-related market, including home improvement is slow," with substantial declines from last year.

The outlook in the Third District manufacturing sector is not strong. On balance, manufacturers polled in February expect a further decline in new orders during the next six months, although they predict shipments will edge up. However, they expect order backlogs to fall further. Capital spending plans at area manufacturing firms have been cut back, on balance, since the start of the year. In contrast to a net increase in spending among firms surveyed in January, firms contacted in February indicated that their capital spending will be only steady, on balance, during the next six months.

Retail

Retailers in the Third District generally reported slight year-to-year decreases in sales for February. Most store executives attributed slow sales in all lines of merchandise to a decline in consumer confidence. Some also noted that sales of winter apparel were especially weak due to unseasonably mild weather. Retailers are limiting inventories in response to the slow pace of sales. Store officials said they have revised down their sales forecasts for 2008; they expect results for this year to show minimal improvement over last year, at best. Several noted that expansion and renovation plans for this year have been cancelled. One chain store indicated that its corporate capital spending plans have been "drastically reduced" and another said it has implemented a "company-wide belt tightening."

Auto dealers in the region generally reported slow sales in February, with most indicating that sales were below the year-ago rate. Dealers in the region expect sales to edge up later this year, but they do not expect sales for the year as a whole to match last year's sales.

Finance

Total outstanding loans at Third District banks were rising slowly in February. Most of the commercial bank lending officers contacted for this report indicated that loan volume outstanding has been rising modestly for all categories of credit; however, some noted that commercial and industrial lending has eased. Most bank contacts indicated that asset quality overall continued to weaken somewhat. All of the banks contacted for this report noted that they were "tightening credit standards across the board" and some indicated that they had ceased lending to lower-rated borrowers completely. Bankers reported that attracting deposits is "a struggle," with strong competition among banks in the District. Some said they have made increased use of purchased funds and Federal Home Loan Bank advances. Looking ahead, bankers generally foresee slow growth in overall lending. They expect earnings to be under pressure during the year as charge-offs increase, unless funding costs decline.

Real Estate and Construction

Residential real estate activity in February remained significantly below the year-ago pace. Residential real estate agents said buyers were deferring purchases in anticipation of further price declines, and sellers were deferring putting their homes on the market because they perceive demand to be weak. In general, residential real estate agents said downward pressure on prices persists. The forecast of one contact—that there will be "no appreciation for quite some time"—was representative of the consensus in the region. Home builders also reported a very slow rate of sales, despite increased incentives. Looking ahead, residential real estate agents and home builders believe there might be some "stabilization" in the lower to mid-price range, but they expect demand for homes in higher price ranges to remain weak, due in part to the reduction in financing for nonconforming mortgages.

Commercial real estate firms reported that office vacancy rates in most markets in the region have continued to decline over the past several months, and rental rates have increased. However, they noted that office vacancy rates have risen in some markets where financial services firms have reduced or ceased occupancy. Construction has eased in most office markets in the region. Industrial real estate firms reported that overall demand for industrial space remained firm, although increased supply has kept rental rates in check. Looking ahead, most contacts in the commercial real estate sector expect leasing activity to be slower in 2008 than in 2007, although they generally expect rental rates to be about level through the year in most markets.

Prices and Wages

Reports of increases in input costs and output prices from Third District business contacts were somewhat less prevalent in February than they were in January, although there has been an increase in the number of businesses noting increased prices for imported goods. Firms in the region noted increases in prices of textiles, food products, chemicals, industrial materials, metals, and machinery. They also reported rising costs for transportation and shipping and for electricity. Most of the firms reporting on employment costs in February indicated that wage increases remained moderate. Several firms noted that they had instituted hiring freezes in response to slowing business activity and rising general operating costs.

FOURTH DISTRICT – CLEVELAND

Economic activity in the Fourth District has slowed somewhat since early January. Overall, factory output was flat though shipments by steel producers and service centers rose. Production at auto assembly plants increased. The housing industry remains weak with little expectation of improvement in the near future. Nonresidential builders reported business was steady to increasing. Sales by District retailers weakened and fell below plan. Bankers cited a pickup in business lending while consumer loan demand was flat to declining. Further, deterioration in credit quality and a small rise in delinquencies were indicated. Energy production was steady to increasing. Truck freight volume slowed.

Employment levels across the District were largely unchanged, though workforce levels fell at a number of national banks and trucking companies. Staffing firms reported a modest increase in the number of job openings while the number of job seekers was unchanged. Demand was greatest in nursing and allied health professions. Apart from energy producers, little upward pressure on wages was noted. Almost all manufacturers cited increased costs for raw materials while homebuilders and nonresidential contractors noted rising metal prices.

Manufacturing. Overall, factory output has been flat during the past six weeks. Reports of increased production were generally attributed to seasonal adjustments. On a year-over-year basis, reports showed output levels were the same to up slightly. Outlook by manufacturers is best described as cautious. In general, steel shipments were on the rise for both producers and steel service centers. Expectations are for steel demand to remain at current levels or increase. The strongest end markets for steel include energy, aerospace, and defense. District auto production increased in January. Output by foreign nameplates increased while their domestic counterparts held production levels steady. In terms of year-over-year comparisons, auto production was down slightly.

Reports on capacity utilization were mixed. Capital spending remains on plan with most producers saying that spending in 2008 will be at or slightly above 2007 levels. However, four of our contacts told us they plan to dramatically increase spending on new buildings and equipment. Almost all of our respondents reported increasing prices for raw materials, especially metals. Further, half of them told us that they have either raised prices or added surcharges since our last report. However, only a few contacts said they plan to raise prices in the near future. Most manufacturers also expect modest inflationary pressures to continue. On balance, there was little change in employment levels and limited hiring is expected in the near future. Minimal wage pressure was reported.

Real Estate. Residential contractors reported new home sales were flat, albeit at low levels, during the past six weeks. Year-over-year, sales activity was flat to down. Looking forward, home builders had mixed opinions. Half our contacts believe an upturn in the housing market will not occur for another 12-18 months while others think market activity may begin to increase late in 2008. Some of the latter group's optimism is based on an across-the-board pickup in traffic during the past couple of months. Inventories remain above desirable levels for most builders. New home prices and material costs—outside of metals—were largely unchanged. A small decline in homebuilding staffing levels was noted.

Almost all commercial contractors reported that business has been steady to slightly increasing since our last report and on a year-over-year basis. Current backlogs are at acceptable levels. Expectations for 2008 suggest that building activity will equal that seen in 2007. We heard some reports that residential contractors are beginning to move into the commercial sector, resulting in a more competitive bidding process. With the exception of a rise in steel prices, material costs have been stable. On net, workforce levels remain largely unchanged; however, a few builders said they may add workers in the second half of 2008. Little upward pressure on wages was reported.

Consumer Spending. Most District retailers reported a decline in January sales when compared to the previous month and on a year-over-year basis. The only segments showing strength were foods and pharmaceuticals. Expectations for the second quarter (2008) are for sales to remain flat or to increase slightly. Auto dealers cited weakness in new vehicle sales during the past six weeks, with little change anticipated in the upcoming months. For the most part, vendor prices were unchanged. Employment levels were adjusted to meet seasonal demands or for staffing new stores. Capital expenditures met projections during the past few months; however, half of our contacts told us that spending in 2008 would fall below 2007 levels.

Banking. Almost all bankers reported a pickup in business lending during the past six weeks. Several contacts attributed the rise to commercial real estate loans. In contrast, consumer loan demand—including autos and home equity—was characterized as flat to declining. The residential mortgage market remains sluggish; however, most of our contacts experienced a boost in refinancing activity. A majority of bankers told us that credit quality for business customers and consumers has deteriorated. Further, a small rise in delinquencies, especially for all types of real estate loans, was reported. Net margins were either stable or had narrowed a little with a few bankers expecting their margins to contract even further. Employment levels at community banks were steady although a number of national banks reported significant employment reductions related to mortgage lending and cost controls. Several contacts expressed concern about increased benefit costs, especially for health care.

Energy. Oil, gas, and coal production has been steady to increasing slightly over the past six weeks. Looking forward, over half of our energy contacts told us they expect demand to rise. However, tightening credit standards, regulatory issues, and price pressures were cited as impediments to increasing production. Reports indicated the price received for coal went up while oil prices were steady to declining and gas prices were stable to increasing. Equipment and material costs were stable while capital expenditures remained on plan. Several of our respondents said that they plan to increase capital spending during the next few months. Net employment levels increased slightly and some additional hiring is expected. Oil and gas producers reported upward pressure on wages.

Transportation. Trucking executives reported freight volume has declined somewhat over the past six weeks and they anticipate little change in the upcoming months. Nevertheless, a few contacts believe a turnaround might occur in the second half of 2008. Rising fuel prices continue to plague the industry. Cost recovery through surcharges is becoming increasingly difficult. Some weakening in capital spending was reported and only modest increases are expected, primarily in the second half of 2008. Employment levels continue to decline as carriers are in the process of reducing capacity. No wage pressures were reported.

FIFTH DISTRICT–RICHMOND

Overview. Business contacts suggested that the Fifth District economy lost some additional momentum in late January and early February. District retailers reported that consumer spending continued to soften in recent weeks, while production activity at District factories slowed further. In addition, commercial lending activity moderated and demand for home mortgages remained weak, though contacts said increased refinancing activity provided somewhat of a boost. Assessments of District real estate markets were also downbeat – home sales continued to languish and commercial leasing activity cooled in several major markets. Feedback from other sectors was more encouraging, however. Tourist activity remained a bright spot and revenue growth at District service providers firmed in February. Port activity was mixed with increases in exports, but sharp declines in import volumes. On the employment front, labor market conditions in the District deteriorated a bit since our last report. Retailers and manufacturers cut jobs, services hiring was flat, and demand for temporary workers softened. Price pressures were elevated in recent weeks behind faster growth in raw material and energy prices.

Retail. Assessments of consumer spending were downbeat in recent weeks. Department store contacts across the Fifth District told us that retail sales languished in late January through the first three weeks of February. A spokesperson for several retailers operating in central Virginia said Presidents' Day sales were a "non-event" and that Valentine's Day revenues were well below their usual levels. Apparel sales were also lackluster according to store managers in Maryland and West Virginia. In addition, a contact at a national discount retailer in North Carolina commented that drought conditions in his region had damped demand for lawn and garden items. Big-ticket categories also slumped, particularly automobile and light truck sales. A contact at a dealership in West Virginia said, "it's rough out here" and noted that he saw little to no customer traffic on his lot unless there was a "major" sale. Despite soft activity, retail prices grew at a faster clip in recent weeks, while District merchants continued to trim payrolls.

Services. Contacts at District services firms reported generally steady to slightly higher customer demand over the past six weeks. An executive at an advertising firm in Richmond, Va., said revenues at his firm grew more quickly in recent weeks, as new businesses continued to locate to the region. Similarly, representatives from several Virginia airports reported higher passenger volumes and increased revenues in late January and February. Contacts at telecommunications and healthcare firms also reported a pickup in demand. The pace of hiring at services firms was unchanged, while price growth edged higher.

Manufacturing. District manufacturers reported that production activity continued to cool in late January through the first three weeks of February as volumes of new orders and shipments dwindled further. Contacts attributed the pullback to a number of factors: a chemical producer in North Carolina cited “general economic uncertainty” among his customers; a contact at a textile mill in South Carolina blamed weak retail sales; and a building supply manufacturer in West Virginia noted ongoing softness in new home construction. Contacts also continued to voice concerns over rising energy and transportation costs. A textile producer in North Carolina told us that recent increases in raw material prices have been “very painful” and that his firm has “no ability to pass them along to retailers” because domestic demand has been generally soft.

Ports. Export activity at District ports intensified in recent weeks as overseas demand for U.S. goods continued to be driven by the lower dollar. On the flip side, port officials told us that import volumes from China continued to dwindle in late January and February. Contacts attributed the slowdown to ongoing weakness in home construction activity and softer retail sales, noting that furniture, apparel, and building material imports were down sharply.

Finance. Residential lending activity picked up in recent weeks as lower interest rates spurred a notable increase in refinancing activity. A contact in Greenville, S.C., said demand for mortgage refinancing at her firm was “twice what it was a month ago,” while a lender in Charlottesville, Va., told us he had been “really busy with refinances.” Similarly, a contact in Baltimore, Md., told us that February was on pace to be a “record-breaking month” in terms of refinancing activity. On the other hand, lenders said that recent rate cuts had done little to boost demand for home mortgages as tighter credit standards and weak demand for homes overshadowed the rate decreases. Several lenders said they had reduced loan-to-value ratios and were requiring higher credit scores on new home mortgages. Reports on commercial lending were more downbeat as loan demand slumped in recent weeks. A contact in Charlotte, N.C., told us that weakness in residential lending had “finally started to spill over to the commercial side,” while a contact in Charleston, W.Va., told us there was “a lot of reticence in the air” as clients were increasingly concerned about the health of the economy.

Real Estate. Fifth District housing market conditions continued to weaken since our last report. A Realtor in the Washington, D.C., area said his market was still “pretty bad,” adding that January home sales were down 41 percent from a year earlier. Similarly, an agent in Raleigh, N.C., told us she did not believe that conditions had “hit bottom just yet,” while a Realtor in Greensboro, N.C., described his market as “slow” and reported seeing more builders “giving away houses.” There were a few “signs of life,” however. A contact in Charlotte, N.C., noted an uptick in buyer traffic in recent weeks, while an agent in Richmond, Va., reported an increase in inquiries as buyers sought to “take advantage of lower interest rates.” In addition, sales activity inside the Washington, D.C., beltway was relatively solid. Contacts said that home prices continued to soften in most markets and construction activity remained generally dormant.

Assessments of commercial real estate conditions were mixed in recent weeks. Conditions were notably weaker along the I-95 corridor between Richmond, Va., and Baltimore, Md., while reports from the

Carolinas were generally upbeat. Contacts in the Washington, D.C., area said the pace of office leasing had "slowed to a crawl" in late January and February. In addition, agents reported that some recently completed office buildings along northern Virginia's Dulles corridor were not attracting tenants. On the other hand, contacts in Columbia, S.C., and in Raleigh, N.C., described demand for office space as "steady." Office vacancies edged higher in Baltimore, Md., and in Washington, D.C., but were "fairly stable" in the Carolinas. It was a similar story with rental rates. Rents were mostly firm in the southern half of the District, while a contact in the northern Virginia suburbs reported downward pressure on office and retail rents, and said he was advising clients "to take what they can get." Contacts reported little to no new construction activity, and agents in Richmond, Va., and in Washington, D.C., told us that several national retailers had recently decided to delay new projects in those markets.

Tourism. Reports on tourist activity were generally positive. Along the coast, contacts on the Outer Banks of North Carolina and in Virginia Beach, Va., told us that bookings for the Presidents' Day weekend were somewhat stronger than a year ago. A contact in Myrtle Beach said tourism spending at area establishments was in line with last year. Adding to the upbeat tone, a manager at a ski resort in Virginia reported that condominium sales remained strong, bookings were up and tourist spending was steady. Similarly, a contact at a West Virginia ski resort told us that sales of new homes at the resort were doing well and that bookings were on track for a record year.

Temporary Employment. Fifth District temporary employment agents reported somewhat weaker demand for workers in late January through the first three weeks of February. Contacts in Hagerstown, Md., and in Cary, N.C., told us that staffing requests had tapered off in recent weeks due to the "slowing economy." Demand held up a bit better in Richmond, Va., but an agent there said she was expecting hiring activity to drop off during the next six months. Administrative and computer skills remained among those most highly sought over the past six weeks.

Agriculture. Reports from District farms were generally unchanged in recent weeks. Severe drought conditions persisted in the Carolinas, despite recent, substantial rainfall in those areas, while pasture conditions continued to improve in Maryland and in Virginia. Although the recent rains did not fully compensate for months of drought, contacts said the precipitation improved the condition of small grains across most of the District.

SIXTH DISTRICT – ATLANTA

Summary. On balance, Sixth District business contacts indicated that economic activity was subdued in January and early February. Retailers noted generally weak sales and uncomfortably high inventory levels, while auto sales were lower on a year-over-year basis for both domestic and foreign brands. Tourism-related spending was generally positive overall, but contacts were somewhat less optimistic going forward. Residential real estate activity remained quite weak, although homebuilders commented that new home inventories were marginally lower. According to Realtors, inventories of existing homes for sale continued to increase. Commercial real estate development was described as having slowed in January and February. Manufacturing performance varied by industry, and domestic freight traffic remained generally sluggish. Banking contacts continued to report stricter lending standards for real estate loans and increased mortgage delinquencies and foreclosures. Contacts in several industries noted continued strong demand for skilled workers. However, firms in housing-related industries noted an increase in layoffs or reduced work weeks. In addition, some temporary staffing industry contacts reported a decline in orders and an increase in worker applications. Contacts noted that rising food and energy prices, along with increases in health insurance premiums, were major concerns.

Consumer Spending and Tourism. Most District merchants reported that retail sales were weak during January and early February, citing a moderate decline in sales compared with a year ago. Several merchants reported that inventories were higher than expected, and were scaling back orders as a consequence. However, the outlook among retailers was generally positive with the majority expecting better sales over the next several months. District vehicle sales remained sluggish early in the year. Weak demand was reported by dealers of both domestic and import brands, and most contacts also noted they had cut back on vehicle orders from automakers.

Tourism-related spending remained generally positive in January and early February. However, one contact noted that bookings for the spring season were down nearly 20 percent from year-ago levels, and some reports indicated that business-related travel had slowed and was lagging year-ago levels. Also, several hotel contacts expected lower occupancy rates and more conservative spending by guests in the near-term as a result of higher food and energy costs.

Real Estate. Homebuilders and Realtors reported that new and existing home sales remained well below year-ago levels during January and early February in most areas. Residential construction activity remained below year-ago levels across the District, but most homebuilders noted that inventories were gradually trending lower. However, many Realtors said that the inventory of existing homes for sale continued to rise despite modest declines in asking prices. The outlook from builders and Realtors over the next several months was somewhat less negative than in previous reports. Contacts noted that the traditionally strong spring-selling season will be crucial in determining the year's performance.

Reports from District contractors indicated that commercial development during January and early February was flat to slightly down on a year-over-year basis. Most contacts indicated that they anticipate a further decline in activity over the next several months.

Manufacturing and Transportation. Manufacturing reports varied by industry. Steel fabrication, energy, and defense-related industries reported strong conditions in early 2008. However, firms providing inputs into residential housing construction continued to report very weak conditions, and many had cut work weeks or pared payrolls as a result. Some auto industry contacts said they were adjusting output levels lower to match sluggish vehicle demand. Manufacturing contacts from most sectors expressed caution with regard to future capital spending and hiring plans.

The lower value of the dollar was said to be supporting exports by District manufacturers, and was also boosting foreign industrial investment in the District. However, freight companies continued to report lackluster domestic demand. Several regional trucking companies cut back operations as a result.

Banking and Finance. Contacts in the banking industry reported relatively tight credit conditions across the District, especially for real estate loans. Concern about the credit availability was also noted by some non-real estate related businesses. Mortgage delinquencies and foreclosures were higher in many parts of the District. However, several contacts noted that borrowers had become more proactive in working with banks on immediate and anticipated credit problems. Loan demand varied across the region, with some contacts reporting increased mortgage refinancing activity in late January.

Employment and Prices. Demand for skilled workers remained strong in several industries, including health care, business and technical services, as well as in the defense- and aerospace-related sectors. However, several firms linked to residential construction and sales reported reduced hours and increased layoffs. Some automakers noted that they eliminated overtime because of production cutbacks. There were also reports from some temporary staffing firms that the volume of job orders had weakened and the number of people applying for temporary positions had increased. Contacts in the hotel/resort industry reported that for the first time in several years they were able to easily fill vacant positions.

Food, petrochemical, and energy-related costs continued to escalate, according to most reports. Increased energy and raw material costs were noted by most manufacturing contacts, but their ability to pass on the higher costs varied. Some specialty-food industry contacts said that recent price increases led some customers to switch to lower price brands.

Agriculture and Natural Resources. District farm areas received needed rainfall in January and early February. However, drought conditions persisted in parts of Alabama, Georgia, Tennessee, and Southwest Florida. Range pasture conditions across the District remained poor.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District continued to expand at a slow pace in January and February. Consumer spending slowed, but business spending plans were mostly unchanged. On balance, labor market conditions were stable, though they varied by industry and location. Residential construction continued to decline, while growth in nonresidential construction showed further signs of slowing. On balance, manufacturing continued to expand modestly, with strong gains in export-oriented and metals-related businesses but weakness among firms with close ties to the housing market. Credit standards tightened further, but business lending remained strong. Pressures from rising material costs increased from the previous period, while wage pressures remained low. Soybean and corn prices rose further, and heavy snow cover could lead to difficult planting conditions in the spring.

Consumer spending. Consumer spending in the District slowed in January and February. Retail sales were adversely impacted by weather conditions, higher energy prices, and slower income growth. Sales at discount stores and wholesale outlets performed well, while spending on luxury and other discretionary items slowed. Retailers maintained lower inventory levels and placed fewer advance orders in anticipation of softer sales in the coming months. Auto dealers in the District reported sluggish sales, though some noted increases in showroom traffic volumes and used car sales in February. Activity in service departments was higher as consumers were looking to delay purchases, and dealers' inventory levels were at normal seasonal levels. Tourism activity was stable in February, with one contact noting a slight reduction in traffic due to the weather.

Business spending. The pace of business spending was little changed from the previous reporting period. A commercial real estate firm reported that despite current credit conditions they were proceeding with capital spending projects. In addition, a contact in the domestic steel industry noted that his firm was investing heavily in capacity as the strength of demand was pushing production to capacity constraints. Overall, employment conditions in the District were stable; most of the declines that were reported reflected typical seasonal movements. Staffing firms reported stability in billable hours and an increase in job advertising activity. The demand for skilled and professional workers remained strong, while the manufacturing and construction industries continued to show weakness. A contact noted that the seasonal decline in construction employment may last longer than usual given the declines in residential construction, and that previously announced layoffs in the automotive industry had yet to take full effect.

Construction/real estate. Residential construction in the District declined in January and February. Contacts continued to report falling demand and tightening credit availability. In terms of sales, contacts noted that inquiries were up in February, particularly in the market for low and mid-tier value homes and among first-time home buyers. However, only a small portion of this increase was matriculating into sales. Construction of spec homes declined and cancellations and delays of residential construction projects increased. Residential rents stabilized as vacancy rates moved lower, although excess inventory continued to be reported in some areas of the District. Nonresidential development and construction in the District also showed signs of slowing from the previous reporting period, with the retail sector accounting for much of this decline. However, infrastructure development remained strong. Financing difficulties were also reported in the nonresidential market. A contact noted that financed projects were proceeding forward, but projects with pending financing were being delayed or cancelled.

Manufacturing. Manufacturing growth was stable compared with the previous reporting period. Demand for heavy equipment such as aircraft, cranes, and energy extraction and mining equipment continued to be robust. Manufacturers in several industries again reported strength in the demand for exports. Domestic steel production continued to move ahead, aided by advantageous terms of trade. A contact reported that the domestic steel industry was operating very close to full capacity and that steel shortages were becoming likely. Demand continued to be soft for manufacturers with close ties to residential housing such as household appliances and fixtures, though one producer of upscale fixtures reported that sales were up slightly in February. Automakers reported soft light vehicle sales in late January and early February, but that these sales were in line with expectations. Contacts in the auto industry also expressed concern about how the current credit situation would affect margins going forward with customers becoming more price sensitive, funding for auto loans becoming more difficult, and the possibility that the credit quality of customers would decline.

Banking/finance. Credit market conditions deteriorated in February from January. Consumer loan demand declined as lending standards tightened. Consumer loan quality in the District moved incrementally lower. Mortgage originations were down as were home equity loans and lines of credit for all but the lowest-risk borrowers. Refinancing activity increased substantially in late January, but began to slow in February. Contacts reported that the increase in refinancing was concentrated among conforming and fixed-rate loans to prime borrowers; other borrowers still faced difficulties in refinancing. Business loan demand remained strong despite tighter credit standards. Commercial and industrial loans were up, but general uncertainty surrounding the residential and commercial real estate markets was seen as limiting the availability of credit to those markets. Despite rising standards and higher spreads in the commercial real estate market, several contacts expressed the opinion that growth opportunities remained, especially in infrastructure development, and that nontraditional lenders were entering selectively into the market.

Prices/costs. Costs rose for a variety of inputs from the previous reporting period. In manufacturing, there were reports of increases in materials prices for metals, cement, and energy-related products as well as transportation costs such as ocean freight. A construction contact reported that shortages of steel were driving up the cost of raw materials like nails, staples, and screws. Contacts outside of the construction and retail industries generally reported that they were passing on these cost increases to their customers. Wage pressures remained limited outside of the skilled manufacturing trades and sales positions that continue to experience shortages of available labor. However, a construction contact cited previously negotiated union wage increases as a factor holding up costs. In addition, a staffing firm reported that their small to mid-size clients were willing to accept higher prices in exchange for greater flexibility in the duration of employment contracts. Several manufacturers and a staffing firm noted that healthcare costs were rising.

Agriculture. Key agricultural commodity prices rose again in January and February. In nominal terms, soybean prices set new daily records, and corn prices approached record levels. District farmers expected heavy snow cover to create wet and somewhat difficult planting conditions this spring. Increases in corn-specific input costs, particularly fertilizers, continued to move planting intentions towards soybeans and away from corn. Higher feed costs lowered the net income of livestock, dairy, and poultry operations. A contact noted that the slaughter of sows and cows increased, leading to delays in deliveries to packing plants. Hog prices were higher, and cattle prices were about the same as the previous reporting period; milk prices moved lower but remained well above the prices of a year ago. Farm tractor and combine orders were reported to extend into 2009, with 2008 production runs already sold out. Contacts also reported that farmland values were bid higher during the period, mostly reflecting demand by farmers as opposed to residential or commercial developers and other investors.

Eighth District - St. Louis

Summary

The pace of economic activity in the Eighth District has slowed since our previous report. Contacts noted, in contrast with the recent trends, increases in manufacturing activity and signs of softening in the services sector. Retail and auto sales declined in January and early February over year-ago levels. Home sales and residential construction continued to weaken throughout the District, but commercial real estate market conditions remained generally positive. Overall lending activity at a sample of District banks declined moderately during the fourth quarter of 2007.

Consumer Spending

Contacts reported that retail sales in January and early February were down, on average, over year-earlier levels. About 61 percent of the retailers saw decreases in sales, while 22 percent saw increases. One-third of the retailers reported that sales met their expectations, 62 percent reported that sales were below expectations, and 5 percent reported that sales were above expectations. Outer wear and food/essentials were strong sellers, while gift items and large-ticket items were moving more slowly. About 43 percent of the contacts noted that inventories were at desired levels, while 48 percent reported higher-than-desired inventories and 9 percent reported lower-than-desired inventories. About 44 percent of respondents expect that sales in March and April will increase over 2007 levels, and another 2 percent expect unchanged sales; but 44 percent expect decreased sales.

Car dealers in the District reported that, compared with last year, sales in January and early February were down, on average. Two-thirds of the car dealers surveyed reported a decrease in sales, while 17 percent reported an increase. About 58 percent of the car dealers noted that used car sales had increased relative to new car sales and 21 percent reported an increase in low-end vehicle sales relative to high-end vehicle sales. One-third of the respondents reported recent increases in rebates and incentives and about 46 percent reported more rejections of finance applications. About 43 percent of the car dealers surveyed reported that their inventories were too high (mostly on new cars and trucks), while the remaining contacts reported that their inventories were at desired levels. Half of the car dealers expect increased sales over 2007 levels for March and April, and another 17 percent expect unchanged sales; but 33 percent expect decreased sales.

Manufacturing and Other Business Activity

Manufacturing activity has increased since our previous survey. However, contacts expressed concern about the effects of the housing sector slowdown on future manufacturing growth. Firms in the chemical, food, household appliance, motor vehicle parts, and oil and gas field machinery equipment manufacturing industries reported plans to open new facilities and hire workers in the District, with significant employment gains in the household appliance and motor vehicle parts industries. Contacts in the electrical equipment manufacturing industry reported plans to expand existing facilities and operations. In contrast, contacts in the nonmetallic mineral product, plastics product, and transportation equipment manufacturing industries reported plans to lay off workers and decrease operations. A firm in machinery manufacturing announced that it will close a plant and lay off workers. Contacts in fabricated metal product manufacturing reported mixed conditions.

The District's services sector has shown signs of softening since our previous report. Contacts in the heath care and educational services industries reported plans to lay off workers. A retail services firm reported plans to close a facility and lay off workers.

Real Estate and Construction

Home sales continued to decline throughout the Eighth District. January 2008 home sales were down 22 percent in Memphis, 12 percent in St. Louis, and 20 percent in Louisville compared with January 2007. Residential construction also continued to decline throughout the District. December 2007 year-to-date single-family housing permits fell in nearly all District metro areas compared with the same period in 2006. Permits declined 33 percent in Memphis, 19 percent in St. Louis, 23 percent in Little Rock, and 7 percent in Louisville.

Commercial real estate market conditions were generally positive throughout the District. The fourth quarter 2007 industrial vacancy rates in Memphis, Louisville, and Little Rock declined over the third quarter of 2007, while the industrial vacancy rate in St. Louis was unchanged. During the same period, both downtown and suburban office vacancy rates declined in St. Louis, Louisville, and Little Rock. In Memphis, downtown office vacancy rates increased while suburban office vacancy rates declined. Contacts in Louisville reported a cautious outlook for the industrial market in the first quarter of 2008, while contacts in west Tennessee reported that commercial real estate is holding up fairly well and should be relatively stable in 2008.

Banking and Finance

A survey of senior loan officers at a sample of District banks showed a moderate decrease in overall lending activity during the fourth quarter of 2007. During this period, credit standards for commercial and industrial loans ranged from unchanged to somewhat tightened, while demand for these loans ranged from unchanged to moderately weaker. Credit standards for commercial real estate loans were tightened, while demand for these loans was moderately weaker. Meanwhile, credit standards for consumer loans were basically unchanged, while demand ranged from about the same to moderately weaker. Credit standards for residential mortgage loans were tightened, while demand for these loans ranged from about the same to moderately weaker.

Agriculture and Natural Resources

The total value of all field crops in the District states rose by 36 percent from 2006 to 2007. Arkansas, Illinois, Indiana, Mississippi, and Missouri farmers saw increases of at least 30 percent, while Kentucky farmers saw no change. In contrast, the total crop value in Tennessee declined by 14 percent over the same period. Value gains reflected mostly increased prices for all major District crops, especially corn, soybeans, winter wheat, and sorghum (for which prices rose by at least 30 percent), whereas total production increased only for corn and sorghum.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy appears to have contracted slightly since the last report. Decreased activity was noted in residential construction and real estate, and consumer spending softened. Mixed activity was noted in services, manufacturing and commercial real estate, while commercial construction was flat. Growth was noted in tourism, energy, mining and agriculture. Overall, labor markets loosened, while wage increases were moderate. Significant price increases were noted for steel, plastics, fertilizer and energy.

Consumer Spending and Tourism

Consumer spending softened. A major Minneapolis-based retailer reported that same-store sales in January were down 1 percent compared with a year earlier. A manager at a Minneapolis area mall reported that traffic during January and early February was slower than a year earlier, but sales were steady. January traffic was down slightly and sales were about even at a South Dakota mall; early February was flat. Meanwhile, a number of national retail chains have recently moved into southwestern Montana.

Recent Minnesota vehicle sales were slow, and some dealerships have gone out of business over the past year, according to a representative of an auto dealers association. Overall, recent auto sales in Montana were down slightly, though a bank director there noted that area auto dealerships with access to at least one domestic and one foreign brand had solid sales.

Tourism activity increased from last year. Snowmobiling and cross country skiing activity was strong in northwestern Wisconsin, according to a tourism official. Lift ticket sales were higher than a year ago, while lodging was down slightly at a Minnesota ski resort; a representative of the resort was optimistic for the rest of the season. A Montana ski resort reported increases in revenue compared with a year ago. Tourism officials in South Dakota expect an increase in visitor spending during 2008, even if the national economy slows.

Services

Reports from the service sector were mixed. A Minnesota architectural firm reported some softening in business for larger projects. An executive search firm in Minnesota indicated that searches were down for construction and finance firms, while strong demand exists for the logistics and manufacturing areas. A Montana bank director noted increased activity for medical, dental and law firms. Contacts from the medical services sector reported continued strength.

Construction and Real Estate

Commercial construction was flat. Progress on an office building in suburban Minneapolis was halted due to uncertainty about demand. However, a number of expansions were under way at medical facilities in Minneapolis-St. Paul. Development began on a hospital research complex in Sioux Falls, S.D., that will eventually reach 2.5 million square feet. Residential construction was down. January new home permits fell 59 percent in the Minneapolis-St. Paul area from a year earlier and also dropped dramatically in Sioux Falls and Fargo, N.D. A bank director reported residential construction slowed slightly in Billings, Mont.

Commercial real estate was mixed; the medical sector grew, office and industrial were flat and retail was down. Recent office vacancy in the Minneapolis-St. Paul area was about the same as a year earlier, while industrial absorption fell and retail vacancy increased. In Sioux Falls, January commercial vacancy was about the same as a year ago. In contrast, Fargo saw declines in office and industrial vacancy, with increases in retail vacancy. Meanwhile, the market for homes continued its downward trend. The median sale price of homes in the Minneapolis-St. Paul area fell almost 9 percent in January from a year earlier, and closed sales were down 21 percent. In contrast, the housing markets in Fargo and Bismarck, N.D., saw strong sales.

Manufacturing

Manufacturing activity was mixed since the last report. A January survey of purchasing managers by Creighton University (Omaha, Neb.) indicated decreased activity in Minnesota and strong manufacturing activity in the Dakotas. Several wood product manufacturers closed or reduced production recently due to weak demand. In Minnesota, a pharmaceutical manufacturer recently announced plans to close a plant. In North Dakota, a new agricultural processing facility is planned and a tractor manufacturer is expanding capacity. A new pipe-making plant is planned in Montana to support the oil and gas industry.

Energy and Mining

Activity in the energy and mining sectors increased since the last report. Robust oil and gas exploration and production continued in the District. Additional power transmission lines are being built to handle increased wind energy production. Most mines remained operating at near capacity, and some expansions were under way. Continued exploration and permitting activity was in progress in a number of areas in the District.

Agriculture

Robust agricultural conditions were reported across the District. The U.S. Department of Agriculture reported strong increases in the value of agricultural production in 2007. Preliminary results of the Minneapolis Fed's fourth quarter (January) survey of agricultural credit conditions indicated that lenders expect overall agricultural income and spending to be up in the first quarter of 2008 due to higher selling prices, but are cautious about higher input costs for fertilizer and fuel affecting this year's spring planting. The price of farmland in the District continued to increase.

Employment, Wages and Prices

Overall, labor markets have loosened. Year-over-year employment levels in Minnesota were down in December. In addition, a recent announcement of an operations consolidation by a major department store will affect 950 jobs in Minnesota. A food processing facility in North Dakota will close, eliminating 125 jobs, and a financial services company in Montana will cut 80 positions. After Montana's unemployment rate dipped to 2 percent in March 2007, the rate increased to 3.6 percent in December. Nevertheless, labor markets continued to be relatively tight in a number of areas in the Dakotas and Montana. Bank directors noted that finding qualified workers remains a challenge for employers in the western part of the District.

Overall wage increases were moderate. The Minneapolis teachers union agreed to a two-year contract that provides a 2 percent wage increase and a slight increase in health insurance coverage. However, a union contract with workers at a South Dakota manufacturer negotiated an 8 percent increase in wages during 2008, followed by raises of just over 3 percent during the next three years. In addition, some low-skilled workers in southeastern South Dakota were receiving pay raises in excess of 8 percent.

Significant price increases were noted for steel, plastics, fertilizer and energy. District manufacturers reported increased prices for steel and plastics during the past two months, while farmers and ranchers noted high prices for fertilizer and fuel. While Minnesota gasoline prices in mid-February decreased slightly since the last report, they were 69 cents per gallon higher than a year ago.

TENTH DISTRICT - KANSAS CITY

Growth in the Tenth District economy slowed to a very modest pace in late January and February. Consumer spending was flat, and manufacturing activity was sluggish. Residential real estate activity remained weak but stable, while commercial real estate activity eased somewhat. The energy sector continued to post solid gains, however, and agricultural investment continued to rise. Labor markets also expanded modestly. Most firms indicated few wage pressures, but overall price pressures increased, driven by rising commodity input costs.

Consumer Spending. Consumer spending was largely unchanged from the previous survey period. Non-auto retail sales were flat overall, with most contacts reporting slower activity than expected. Some of the softness was attributed to colder-than-normal weather, but many retailers blamed less foot traffic on negative media reports about the economy. Sales of housing-related items remained especially weak, while restaurant sales and sales of cold weather items were solid. Managers generally expected continued sluggish retail sales in the months ahead, and many stores were being cautious with inventories due to slower sales and less cash flow. Auto dealers reported reduced sales and an uptick in inventories, which many attributed to fewer potential buyers being able to qualify for credit due to tightened lending standards. Sales of trucks and SUVs remained weak, and dealers reported a shift from new, more expensive cars to pre-owned, lower-priced vehicles. Travel and tourism activity was generally positive, with solid business travel offsetting some softness in leisure travel. Most contacts continued to expect strong travel and tourism activity in coming months, driven in part by expected increases in international travel to the Rocky Mountains.

Manufacturing. Manufacturing activity was sluggish in late January and February, but expectations for future factory activity remained solid. Plant managers reported some weakness in production and shipments, particularly among producers of food and chemicals. Still, new orders continued to increase moderately, driven in part by export orders, and capital spending plans remained solid. The majority of producers also indicated steady hiring plans for 2008 as a whole.

However, some contacts put near-term hiring and capital spending plans on hold, given economic uncertainty.

Real Estate and Construction. Residential real estate activity remained weak, while commercial real estate activity slowed somewhat. Home sales were slow but stable, with sales of lower-priced homes greatly outpacing sales of higher-priced homes. Several real estate agents reported a decline in the number of qualified buyers due to tightened credit conditions. Still, agents were generally optimistic about sales in the months ahead. Builders reported that speculative construction remained at very low levels, helping to keep unsold home inventories from rising further. However, most housing contacts did not expect home inventories to decline to normal levels until 2009. Home prices continued to edge down in many areas, but some stabilization was expected in the near-term and several energy and agriculture-dependent areas continued to see home price increases. Commercial real estate activity edged down from the previous survey period, as construction and absorption slowed from solid levels. However, vacancy rates remained relatively stable and prices and rents were largely unchanged. Several developers reported hesitancy in beginning new projects, and many noted stricter underwriting standards for investment loans.

Banking. Bankers reported weaker loan demand, tighter credit standards, and a worsened outlook for loan quality since the last survey. Demand fell for all major categories of loans, but especially commercial real estate and commercial and industrial loans. About half of the respondents reported a tightening of credit standards for commercial real estate loans, a higher proportion than in the previous survey. There were also some reports of tightened standards for commercial and industrial loans, consumer installment loans, agricultural loans, and residential real estate loans. Most respondents who tightened credit standards attributed the change to a weakening in the economic outlook. A substantial number of banks reported that overall loan quality was down from a year ago, and loan quality was expected to decline somewhat further. Bank deposits fell moderately, led by declines in demand deposit accounts.

Energy. Energy activity continued to expand at a solid pace in late January and February. Most contacts reported steady or increased drilling activity, and producers' expectations for future exploration rose from the last survey period. Several firms reported that shortages of labor continued to constrain drilling activity, but other companies said investments in newer drilling technologies has made recruiting and retaining workers less of an issue. Capital spending plans continued to be strong, and credit conditions were still reported as positive in the industry, with most contacts citing strong cash flows and ample financing opportunities.

Agriculture. Agricultural conditions remained favorable in late January and February. The winter wheat crop was in good condition, with abundant snow cover and heavy mountain snowfall improving prospects for spring stream flows. Record high crop prices quickly translated into robust farm capital spending and record farmland value gains. However, production costs for both livestock and crop producers rose further. Rising margin calls on commodities futures contracts and large inventories of crop inputs also strained cash reserves at grain elevators.

Wages and Prices. Price pressures increased overall, although soft labor market growth limited wage pressures. Manufacturing and construction contacts reported an upsurge in raw materials prices, especially for steel, copper, and any materials with high transportation costs. Factory finished goods prices also escalated from the previous survey and were expected to rise further. Restaurants reported a substantial rise in food prices, particularly for wheat flour-based products, and several planned to raise menu prices in the near future. However, overall retail selling prices were largely unchanged and expected to remain stable. District hiring announcements continued to outpace layoff announcements but by a smaller margin than in recent surveys. Several sizable additions to employment were reported in the energy and engineering industries, while some layoffs were announced in the financial and food manufacturing sectors. A number of firms continued to report difficulties hiring skilled workers, such as maintenance technicians, as well as some entry-level workers, particularly housekeepers and sales positions. But wage pressures remained largely contained.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy continued to soften from January to late-February. Reports were uneven but suggested moderate economic growth. Contacts expressed a great deal of uncertainty about the outlook for growth, and some said they are preparing for the possibility of an economic downturn.

Energy activity remained high, but the level of activity has flattened out. There was a pickup in service sector activity, but manufacturing continued to soften, and retail sales were weak. Construction activity slowed further. Financial service firms said lending had softened. Dry weather hampered agricultural conditions.

Prices. Costs are rising for most industries, particularly for metals, shipping and energy. Some firms said they've been able to pass higher costs onto customers, but many said competitive pressures have restrained selling price increases and profit margins.

Strong global demand pushed up oil and natural gas prices. Gasoline prices began a sharp seasonal rise as the driving season approaches. Higher fuel costs have pushed up shipping fees, and one contact said a new fuel surcharge has been added for overseas cargo.

Agricultural prices have also risen. Cotton prices are up, while wheat, corn and sorghum are near record levels. Food manufacturers said concerns about high electricity costs are dwarfed by escalating prices for flour, shortening, corn, soybean meal and dairy products. Contacts say they see no sign of upward price pressures abating.

Building costs have risen for nonresidential construction. Metal prices are up, including for aluminum, copper and steel. Prices have fallen for lumber and other products used in residential construction.

Labor Market. A number of firms reported that they have reduced employment and/or frozen hiring to keep operations lean in preparation for the possibility of slower activity. Still, there are firms reporting that activity is being restrained by labor shortages, particularly for skilled workers, such as certified mechanics, engineers and those who support the energy industry.

Upward wage pressures have eased in some industries but continue to be reported in others. Temporary service firms said pay rates have been pushed up because of shortages of white collar and executive talent. Shipping firms said the shortage of talent has pushed wages up by 5 percent.

Manufacturing. Factory production continued to soften. Demand for paper has been seasonally slow, and some producers fear that sales have been more sluggish that the typical seasonal slowdown. High-tech manufacturing activity has weakened, and firms said customers are reducing capital spending and inventories in anticipation of a possible downturn. Production of automobiles has weakened, but orders remained solid for manufacturers of boats, barges and aerospace components. Food producers said demand has not increased, which they attributed to high prices.

Demand remained weak for materials to supply residential construction, such as lumber, metals, brick and glass. Contacts at these factories were pessimistic, and said business is tough and competitive. Sales of products for nonresidential construction are still strong but no longer offsetting slowing residential sales, and there is caution that activity will slow.

Refiners cut production in the face of weak margins and high gasoline inventories. Utilization rates dropped sharply from 89 to 85 percent—twice the normal seasonal drop. Domestic demand for polyvinyl chloride remained weak, particularly for residential construction, although sales remained fairly strong for commercial and public construction. Polypropylene producers have reduced production to maintain prices in the face of weak demand. Base chemicals and plastics continue to pull back from the massive exports that occurred last fall.

Retail Sales. Retail sales were weak in January but improved some in February. Companies with national stores said Texas sales have recently decelerated faster in the state than in the nation but still remain stronger than in the rest of the country. Auto sales picked up since the last report, which dealers attributed to increased advertising and incentives.

Services. Temporary service firms reported an unexpected pickup in demand for direct hires. Orders were strongest for professional and technical workers in IT, engineering and oil-related services. Demand remained solid for workers to supply healthcare. There was an increase in orders from the financial services industry, with demand coming for mortgage refinancing and credit collections. Orders to supply manufacturing were sluggish.

Shipping activity was unchanged on balance. Declines in the value of the dollar have stimulated exports, according to contacts, but the increase has not been enough to offset the decline in imports. Railroad activity remained strong, stimulated by shipments of chemicals and products to support nonresidential construction. Rail transport continued to decline for products to supply residential construction, and there was a slight decline in volumes for petroleum products. Airlines reported an increase in traffic and say bookings are holding up.

Construction and Real Estate. Housing markets remained weak. Existing home sales were slower than a year ago. New home sales have been lackluster. Cancellation rates have risen, and contacts are concerned that rising foreclosures will add to elevated home inventories. Builders noted that downward pressure on prices has led to tremendous incentives on finished speculative inventory. Industry contacts have become more pessimistic and now do not expect improvement until 2010. Apartment markets continued to improve with strong demand and rising rental rates.

Commercial construction remained active, but demand for office and retail space had decelerated. The pace of investment in new nonresidential projects has slowed.

Financial Services. Financial service contacts have become much more cautious. Reductions in the federal funds rate have squeezed net interest margins at numerous small-to-midsize financial institutions where asset returns have declined more than the cost of funds. There is aggressive competition for deposits and good quality deals. Smaller institutions say it is tough to compete against aggressive loan repricing by larger financial intermediaries.

Lending has softened, especially for automobile, mortgage and commercial real estate loans. Credit standards for commercial loans have tightened. Credit quality is sound, say financial service contacts.

Energy. U.S. and Texas drilling has been flat, leaving activity outside North America to be the driver for sales and revenue growth. New environmental regulations have raised costs and cut the level of activity in southern New Mexico. Drilling continued to decline in the Gulf of Mexico, as rigs leave for higher profits elsewhere. Day-rates for land rigs, pipe and other durables remain flat, while prices for drilling and evaluation services have flattened more recently. The entrance of new oil service and machinery firms has helped ease pricing in many areas, such as pressure pumping.

Agriculture. High prices and a large 2007 crop has boosted farm income and spurred investment in farm equipment. Recent dry weather has caused poor pasture conditions and led to concerns that wheat and oat crop yields could be below average. Still, livestock are in good condition, and contacts say rain can improve crop yield projections.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District appears to have grown modestly during the survey period of early January through late February. Upward price pressures remained strong for food and energy but were limited for other products, and scattered reports pointed to slight easing in upward pressures on labor costs. Contacts reported weak sales of retail goods and slower demand growth for various categories of services. Manufacturing activity was mixed across sectors but appears to have expanded slightly on net, while agricultural producers saw continued solid growth in sales. Demand for residential real estate remained exceptionally weak, and demand for commercial real estate eased a bit further. Banking contacts reported that loan demand was little changed, while credit standards tightened further.

Wages and Prices

Price inflation was modest overall, although food prices continued on their upward march and energy prices remained highly elevated. Prices were largely stable to down for a variety of retail products, and they fell further for selected building materials, especially wood products. However, upward price pressures remained strong for various food products and energy-intensive items such as transportation services. Contacts also noted recent increases in the costs of raw materials used for clothing manufacturing.

Wage increases were moderate on net, with numerical reports generally in the range of 2 to 4 percent on an annual basis. Contacts provided scattered reports of reductions in upward wage pressures for sectors in which labor demand has eased of late, such as construction, retail, and finance. However, selected categories of skilled technical labor remained in short supply in some areas, and workers in these categories continued to receive large wage increases.

Retail Trade and Services

Retail sales softened further in the wake of a weak holiday season. Sales were slow at department stores and a variety of smaller retail chains, causing inventories to rise above desired levels; expectations of continued sluggish sales into the spring have prompted retailers to scale back merchandise orders and reduce staff in some cases. Demand fell further for household items such as furniture and appliances, although the drop reportedly was not as pronounced as it had been in previous survey periods. Sales of new automobiles were very weak for domestic and imported makes alike, with double-digit declines reported relative to year-earlier levels in some areas. Due to slow sales in recent months, some retailers have put selected capital spending projects on hold or reduced their capital spending plans for 2008.

Conditions weakened slightly for service providers. Utilization of health-care services continued to grow but at a slower pace than in prior months. Activity remained very low for providers of real estate services such as title insurance, and weakness in the real estate sector reportedly has held down demand for legal services in some areas. Travel and tourism activity fell a bit further from earlier high levels in Hawaii; however, tourist activity remained largely stable in the coastal areas of California, due in part to continued growth in foreign tourism spurred by the lower exchange value of the U.S. dollar.

Manufacturing

Manufacturing activity varied by sector but appears to have expanded slightly on net during the survey period of early January through late February. Production activity and new orders grew further for makers of commercial aircraft and aerospace products used for national defense purposes. Semiconductor manufacturers reported continued moderate growth in sales accompanied by balanced inventories and high rates of capacity utilization. Food manufacturers saw double-digit sales gains relative to a year earlier. By contrast, apparel makers reported that sales and new orders were below expectations. Reports from various sectors indicated a cautious attitude towards new investments, with capital spending in 2008 likely to be flat to down compared with 2007.

Agriculture and Resource-related Industries

Demand for agricultural products continued to expand. Contacts reported solid growth in domestic and overseas sales for a variety of crops, although demand reportedly weakened recently for selected crops such as pecans. Input prices and availability were characterized as largely stable, although some farmers have been struggling with cost pressures due to high prices for fertilizers and other petroleum-based inputs.

Real Estate and Construction

Activity in residential real estate markets stayed stuck at very low levels during the survey period, while demand for nonresidential real estate eased a bit further. Demand for new and existing homes was little changed from the depths reached in recent survey periods, keeping transaction volumes exceptionally low; this caused prices to fall further in the weakest areas and flatten in areas that had exhibited resilience until well into 2007, such as Utah and parts of the Pacific Northwest. In contrast to the residential sector, construction activity and sales in the commercial and industrial sectors have been at high levels. However, a recent trend toward slight easing for commercial and industrial space continued during the survey period, with rising vacancies reported for Las Vegas and reduced rental demand noted for the San Francisco Bay Area.

Financial Institutions

District banking contacts reported that loan demand was little changed relative to the previous survey period. Reports on commercial and industrial lending were mixed across areas, with demand characterized as “strong” in some areas and declining in others. Lending for new residential mortgages remained very low, but contacts noted that refinancing of existing mortgages picked up, spurred by low interest rates. Credit standards remained very tight for real estate loans and tightened perceptibly for consumer and business borrowers more generally during the survey period. Like many other businesses, banks and other financial institutions recently have adopted a cautious approach to capital spending, limiting projects to those that are necessary to replace aging equipment or have short-run payoffs such as increased productivity.