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Summary of Commentary on ______________________

Current Economic Conditions

By Federal Reserve District

June 2009

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

JUNE 2009

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Summary[1]

Reports from the twelve Federal Reserve District Banks indicate that economic conditions remained weak or deteriorated further during the period from mid-April through May. However, five of the Districts noted that the downward trend is showing signs of moderating. Further, contacts from several Districts said that their expectations have improved, though they do not see a substantial increase in economic activity through the end of the year.

Manufacturing activity declined or remained at a low level across most Districts. However, several Districts also reported that the outlook by manufacturers has improved somewhat. Demand for nonfinancial services contracted across Districts reporting on this segment. Retail spending remained soft as consumers focused on purchasing less expensive necessities and shied away from buying luxury goods. New car purchases remained depressed, with several Districts indicating that tight credit conditions were hampering auto sales. Travel and tourism activity also declined. A number of Districts reported an uptick in home sales, and many said that new home construction appeared to have stabilized at very low levels. Vacancy rates for commercial properties were rising in many parts of the country, while developers are finding financing for new commercial projects increasingly difficult to obtain. Most Districts reported that overall lending activity was stable or weak, but with mixed results across loan categories. Credit conditions remained stringent or tightened further. Energy activity continued to weaken across most Districts, and demand for natural resources remained depressed. Planting and growing conditions varied across Districts as did agricultural input costs.

Labor market conditions continued to be weak across the country, with wages generally remaining flat or falling. Two Districts also mentioned employers' plans to scale back employee benefit programs. The Atlanta, Chicago, and St. Louis Districts reported that some state and local governments

[1] Prepared by the Federal Reserve Bank of Cleveland based on information collected on or before June 1, 2009. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

faced hiring freezes or outright job cuts. While manufacturing employment levels remained low, some Districts saw signs that job losses may be moderating. With few exceptions, Districts reported that prices at all stages of production were generally flat or falling. The notable exception to the downward pressure on prices was the widely-reported increase in oil prices.

Manufacturing. Manufacturing declined or remained weak in most Districts. Boston, Philadelphia, Cleveland, Chicago, St. Louis, and Minneapolis reported declines in activity, while production remained at very low levels in the San Francisco District. Atlanta and Kansas City indicated that the pace of the decline in manufacturing had moderated or slowed. New York characterized the sector as having stabilized, while Dallas mentioned signs of stabilization. In contrast, Richmond reported a rise in both new orders and shipments.

Philadelphia reported that the primary metals, machinery, and electrical equipment industries remain especially weak, and Cleveland noted that steel shipments continue at depressed levels. Chicago commented that, apart from Asia, export demand was weak. Dallas reported that construction-related manufacturing and the petrochemicals markets remained weak, while San Francisco stated that activity in the wood products industry was depressed and that demand in the metal fabrication industry was extremely weak. Cleveland, Chicago, St. Louis and Dallas all noted weakness in automotive-related industries. In contrast, Boston, Dallas, and San Francisco indicated that high technology industries experienced some increase in activity, and Richmond noted strengthening across a number of industries. Several Districts also reported that the outlook of manufacturers has improved somewhat, though Boston, Cleveland and Kansas City mentioned that capital spending was weak.

Nonfinancial Services. Districts reporting on nonfinancial services indicated that for the most part activity continued to decline. Looking at some specific sectors, providers of health-care services spoke of job cuts and lower patient volumes. Activity continued to weaken or remain soft for providers of professional services such as accounting, architecture, business consulting, and legal services. In contrast, San Francisco reported a substantial pickup in real estate services such as title insurance due to an increase in home refinancing. Activity in IT services varied, with New England firms experiencing declining revenue and business, while demand for IT workers in Richmond and Chicago was reportedly on the rise. High-tech service sales in Kansas City increased moderately, and demand there is expected to strengthen.

Transportation contacts in most Districts say that shipping volume either remained at low levels or continued to decline. Contacts in the Cleveland District generally stated that while shipping volumes remain down across all market segments, the steep drop-off earlier this year has abated. Cargo and container trade in Richmond and Dallas remains at low levels, but contacts noted signs of improvement in import and export activity.

Consumer Spending and Tourism. Consumer spending remained soft as households focused on purchasing less expensive necessities. Reports from New York, Minneapolis, and Dallas indicated a modest rise in sales, while retail purchases in Boston, Philadelphia, Cleveland, Atlanta, Kansas City, and San Francisco were flat or mixed. The other Districts experienced declining sales. Several Districts reported that discounters have seen their sales increase, while purchases of luxury goods continued to weaken. Respondents from Boston, Philadelphia, Cleveland, Atlanta, St. Louis, Kansas City, and Dallas expect soft consumer sales to persist. Purchases of new cars remained depressed across most Districts. However, Chicago saw a small increase in auto sales, which respondents attributed to incentives and promotions. New York, Philadelphia, Atlanta, and Kansas City indicated that tight credit conditions hampered auto sales. Reports from Cleveland, Chicago, Kansas City, and San Francisco indicate that sales of used vehicles are rising.

Travel and tourism activity declined, and vacationers are tending to spend less. Business at Manhattan hotels and Broadway theaters, which had increased modestly in April, fell back in May. Bookings at resorts in the Richmond District are starting to pick up; however, they are weaker than a year ago. In the Atlanta District, promotions and discounting were said to have played a significant role in keeping theme park attendance and cruise bookings stable. Contacts from the San Francisco District said that pronounced declines in hotel occupancy rates, especially luxury hotels, were ongoing, while travel in some parts of the District remained down at double-digit rates from the previous year. However, a report from the Minneapolis District indicated that summer reservations at campgrounds and resorts are strong.

Real Estate and Construction. Although the residential real estate market remains weak, agents in the New York, Philadelphia, Cleveland, Richmond, Chicago, Kansas City, Dallas, and San Francisco Districts reported an uptick in home sales. The reasons cited include seasonal factors, low interest rates, declining house prices, and tax credits for first-time buyers. Much of the sales increase was found in the lower-priced end of the market. New home construction appeared to have stabilized at very low levels in Philadelphia, Cleveland, Atlanta, Chicago, Minneapolis, Dallas, and San Francisco, although Kansas City reported an uptick in construction. Home inventories were trending down in Philadelphia, Richmond, Atlanta, Kansas City, and Dallas. However, Chicago reported that inventories remain elevated.

Commercial real estate markets continued to weaken across all Districts. Vacancy rates for commercial properties were rising in many regions of the Boston, New York, Philadelphia, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, and San Francisco Districts putting downward pressure on rents. Atlanta, Chicago, and St. Louis reported new construction projects being postponed or cancelled, and new construction in the New York, Philadelphia, and Minneapolis Districts dropped substantially. Eight Districts cited difficulty in obtaining financing as one of the primary reasons for delaying or stopping construction of new developments and for limiting sales of existing properties.

Banking and Finance. Most Districts reported that overall lending activity was stable or weak, but with mixed results across loan categories. Demand for commercial and industrial loans fell in New York, Philadelphia, Richmond, and San Francisco. Boston, Chicago, St. Louis, Kansas City, and Dallas singled out commercial real estate as experiencing weakening demand. Boston reported that commercial real estate transactions were increasingly scarce, and Dallas noted that loan renewals in this category required more borrower equity and smaller loan sizes than in the past. Atlanta and Chicago reported limited credit availability for vehicle dealers and other businesses tied to the auto industry. Demand for mortgage refinancing loans was mixed. New York and Cleveland reported strong demand for these loans, while Richmond noted a waning of residential refinancing demand due to rising interest rates. Richmond also reported an uptick in demand for purchase mortgage loans.

Most Districts said that credit conditions remained stringent or tightened further. Reports from Philadelphia and Cleveland expected that credit will remain tight in the near term. The credit quality of loan applicants and existing clients showed deterioration in Philadelphia, Richmond, Cleveland, and Dallas, although Richmond noted that the rate of deterioration has slowed. New York and Cleveland said that delinquencies had increased across numerous loan categories, particularly those tied to real estate. Cleveland and Kansas City reported increases in bank deposits, with the latter attributing the rise to uncertainty about financial markets.

A**griculture and Natural Resources.** Planting and growing conditions varied across Districts, with favorable developments in Richmond, Kansas City, and Dallas. However, a drought hindered Oklahoma’s wheat crop and livestock production in Southwest Texas. Above-normal rainfall delayed planting of major crops in the Atlanta, Chicago, and St. Louis Districts. Storms in the Minneapolis District destroyed fields and led to higher-than-normal deaths in calving. The Chicago and Kansas City Districts both said that lower cattle and hog prices along with higher feed costs have worsened the income prospect for livestock producers. Input costs in San Francisco, though, have stayed at moderate levels, and sales have continued at a solid pace for most types of agricultural output.

Energy activity continued to weaken across most Districts, and demand for natural resources remained depressed. Coal production and prices fell substantially in the Cleveland District. The number of drilling rigs operating in the Kansas City District is sixty percent below its peak last fall, and working rigs in Texas have fallen fifteen percent over the past six weeks as global demand for oil remains low. However, one production facility in the Gulf of Mexico just opened in May and is expected to make a major contribution to oil and natural gas output once it reaches full production. Wind energy projects expanded in the Kansas City and Minneapolis Districts.

Employment and Wages. Labor market conditions continued to be weak across the country, with wages generally remaining flat or falling. Kansas City, Dallas, and San Francisco reported that businesses were cutting or freezing wages, and Boston cited wage freezes in the retail sector. The Chicago District reported that the downward pressure on wages was abating somewhat there, as firms turned instead to cutting hours or jobs outright to contain labor costs. Firms in the Atlanta and Dallas Districts also reported having to cut hours to reduce costs. In addition, the Boston and San Francisco Districts also mentioned employers' plans to scale back employee benefit programs.

In the service sector, the Boston and Cleveland Districts reported relatively stable retail employment, while the Richmond District reported continuing reductions. The Richmond, Chicago, Minneapolis, Dallas, and San Francisco Districts noted that firms providing professional services, such as accounting, consulting, and legal services, continued to report staff reductions, while the Boston and New York Districts reported weak demand for financial services workers, with ongoing layoffs at large financial firms. The Boston and Richmond Districts also reported reductions in information technology jobs. The Atlanta, Chicago, and St. Louis Districts reported that some state and local governments faced hiring freezes or outright job cuts.

In manufacturing, while employment levels remained low, several Districts saw signs that job losses may be moderating. The New York, Richmond, Atlanta, and Kansas City Districts all reported less severe employment reductions in recent weeks, with some optimism that manufacturing employment levels may soon stabilize. This, however, was balanced by reports of ongoing manufacturing employment losses in the Boston, Cleveland, Chicago, and St. Louis Districts.

Staffing services firms reported some modest signs of recovery, with the Boston, Atlanta, Chicago, and Dallas Districts all reporting some stabilization in activity or a slight improvement in employment trends. The Cleveland and Richmond Districts, however, continued to report that activity among staffing services firms was weak.

Prices. With few exceptions, the District Banks reported that prices at all stages of production were generally flat or falling. Manufacturers in Philadelphia, Cleveland, Atlanta, Chicago, Dallas, and San Francisco said that overall input prices were stable or declining, although in Kansas City those declines were said to be moderating. In contrast, Richmond noted that prices of raw materials had increased at a quicker pace. The notable exception to the downward pressure on input prices was oil. Increases in oil prices were widely reported. However, prices for other energy commodities, like coal and natural gas, remained relatively low. Other exceptions to the prevailing price trend included agricultural items. The Atlanta and Kansas City Districts reported some increases in agricultural prices, with the latter noting that these higher prices were partly driven by global weather concerns. The Chicago and Kansas City Districts also reported higher prices for livestock feed. In construction, the Philadelphia, Kansas City, and Minneapolis Districts reported higher prices for some building supplies, perhaps related to increase in petroleum prices.

Reports from a number of Districts indicated that pricing at retail remains very soft. The Cleveland and Dallas Districts indicated that retail prices were stable, San Francisco said that they were held down by discounting, and Philadelphia noted that steady input costs were holding retail prices in check. In Kansas City, retail prices were declining and expected to soften further. Richmond’s retail prices continued to rise, albeit more slowly than in the past.

FIRST DISTRICT – BOSTON

Most First District business contacts report ongoing declines in sales or orders from a year earlier. Aside from biopharmaceuticals, manufacturers say business continues to drop off and they are cutting capital spending, employment or hours, and compensation. Software and information technology services firms are also seeing revenues fall from a year ago, as are staffing firms. However, a few manufacturers and staffing firms cite some stabilization or positive signs recently. Residential and commercial real estate markets remain in the doldrums, with declines in prices and sales (or rents and occupancy) continuing into March and April. Retailers are the exception, with a majority of respondents reporting modest sales increases from a year ago. Manufacturers say input costs are roughly flat, while their selling prices are flat to down. Retailers' and software firms' prices are holding steady, while temp firms' bill rates and pay rates are declining. "Uncertain" continues to be the operative word regarding the outlook, although contacts in several sectors see more reason for optimism now than six weeks or three months ago.

Retail . With one exception, contacted retailers in the First District report modest year-over-year sales changes for April and early May. By contrast, a housing-related respondent reports that sales are running more than 30 percent below a year ago, partly because of "overly restrictive" lending. Another retailer is concerned about an observed increase in credit card "declines" as customers hit their credit limits.

Respondents continue to tightly manage inventory levels. Capital spending reports are mixed, with some contacts taking advantage of improving expansion opportunities and others still curtailing 2009 capital spending. The majority of contacted retailers say their headcounts are currently stable, although generally below year-earlier levels, with hiring occurring only where necessary. Most have frozen wages in their corporate headquarters; one respondent indicated they had "offset" the wage freeze by giving all affected employees an additional week of paid vacation. Prices remain stable.

Overall, most First District retailers expect sales growth to remain modest, but they are cautiously optimistic about seeing “the green sprouts of recovery.”

Manufacturing and Related Services . Almost all manufacturing and related services contacts headquartered in the First District report that, to date, 2009 sales or orders have fallen below year-ago levels, in most cases by double-digit percentages. Respondents say that consumers and businesses remain especially wary of spending for big-ticket items or in bulk, and many note that demand is off more sharply in foreign markets than domestically. Most manufacturers expect sales declines in the second quarter to be at least as pronounced as they were in the first quarter, but a few are beginning to cite modest improvements. For example, contacts indicate that production of semiconductors for selected consumer products picked up in the second quarter compared to first-quarter levels. Another sees opportunities in the fiscal stimulus package for alternative energy and other infrastructure projects. By contrast with other manufacturing segments, biopharmaceutical sales continue to increase strongly.

Costs of materials and other inputs have decreased for some manufacturers but increased for others. On average, they appear fairly stable. Selling prices are generally said to be flat to down. Almost all the contacted manufacturers and related services providers have reduced employment and/or hours this year. Many expect to implement further layoffs, temporary plant shutdowns, or voluntary or involuntary furloughs in the months ahead. Nearly one-half of respondents have taken steps to rein in employee compensation through measures such as pay freezes or benefit reductions.

Almost all respondents have cut capital spending from last year’s levels. Many describe their investment plans in terms such as “the very minimum,” but some say they may undertake projects related to development or manufacture of new products or to cost-cutting.

Manufacturers and related services providers are mixed in their outlook. Some describe themselves as becoming slightly more optimistic on the basis of their own business or broader developments in financial markets or consumer confidence. Others remain guarded about their sales prospects through the end of 2009 and into 2010. To the extent that they express confidence, it is primarily because they have succeeded in reducing costs and managing accounts receivable.

Software and Information Technology Services. New England software and information technology firms report a continued slowdown in the second quarter of 2009. Revenues have dropped year-over-year for nearly all contacted firms, generally driven by sharp declines in new software license revenues, while maintenance contracts have remained steady or shown slight weakness. Respondents continue to talk with prospective clients wanting to invest in new technology, but those customers are unwilling to finalize deals in the current economic environment. Some contacts say their clients are also delaying orders out of uncertainty about possible restrictions on the allocation of money from the federal stimulus package. Some First District software and IT firms have reduced their workforces, while others continue to hire selectively for critical positions and replacements. Selling prices have held up, although some clients are asking to revisit their payment terms. Software and IT firms in New England have revised downwards their revenue forecasts, with expectations for the remainder of the year varying from a prolonged softening to moderate growth.

Staffing Services. First District contacts suggest the temporary services industry has stabilized during recent weeks, with some even reporting slight upticks in activity. Despite the improvement over prior months, there is still a marked decline from the previous year, with yearly revenues down 10 percent to 50 percent. Overall labor demand remains soft, specifically in the manufacturing, light industrial, and financial services sectors, although companies in the biotechnology and pharmaceutical industries continue to hire. The supply of job seekers is abundant; however, a few respondents indicate that applicants are often ill-qualified for open positions. In addition, certain specialized skill sets remain difficult to find, including medical billers, engineers, programmers, and skilled electricians. Also, the recruiting process is lengthening, as employers are “waiting for ideal candidates.” Clients continue to put pressure on prices, but bill rate reductions are translated proportionately to pay rates without dispute from employees. Several contacts express concern over expected increases in state unemployment taxes, with one respondent noting that the tax generally rises by 50 percent in the year following a recession. First District staffing contacts believe that the New England labor market, excluding the manufacturing sector, is performing better than that of the nation as a whole, and respondents are generally hopeful for an improved 2010.

Commercial Real Estate. A Boston-based savings bank reports that financing volume for smaller commercial deals (priced below $10 million) slowed considerably through April and May, to a pace roughly half that observed in the first three months of 2009. This development is noteworthy, as this contact and others had previously reported that the demand for loans for small commercial properties remained robust despite very slow volume in the market for higher-priced properties. A broker for larger deals reports that transactions remain extremely scarce, with little price discovery.

Contacts across the region report that office vacancy rates continued to rise in recent months, exerting ongoing downward pressure on rents. In both Providence and Boston, the exit, consolidation, and shrinkage of large employers has pushed up office vacancy rates, including a significant increase in space available for sublease in Boston; similar forces are operating in Hartford, although causing more modest changes. While office rental rates are reportedly falling in Boston and Providence, asking rents for Hartford office space have held steady in recent weeks despite the increases in vacancy. The industrial sector remains relatively robust in Rhode Island, with steady deal volume and vacancy rates hovering just above 10 percent. One contact reports that rents for suburban Boston retail space have declined by 10 percent to 15 percent, with minimal new leasing activity.

Contacts expect a delayed recovery for the commercial sector, with vacancy rates continuing to rise in the office and retail sectors, following further expected increases in the unemployment rate. One Boston contact repeated his previously expressed concern regarding Boston properties that risk foreclosure in light of declining property values and loan maturities one to three years out.

Residential Real Estate. New England residential real estate markets continue to be weak, with only a couple of exceptions. Most states in the region experienced 10 percent to 20 percent year-over-year declines in home sales in March or April. Despite favorable interest rates, low prices, and the first-time homebuyer tax credit, contacts say concerns about employment and the overall economy are still holding back the market. Median home prices declined 10 percent or more year-over-year in every state in the region, with Rhode Island's prices falling 27 percent in March. One exception was home sales in New Hampshire, which actually increased about 10 percent year-over-year in March and April; bank-owned properties were reportedly a significant part of this sales increase. Another positive sign came from Massachusetts, where the median home price increased a substantial (and non-seasonal) 8 percent from March to April. Additionally, several contacts continue to report increased activity, partly due to the tax credit, but they are uncertain about the degree to which it will translate into increased sales. Most contacts are reluctant to predict when prices will stabilize.

Condo markets continue to soften in New England, with sales volumes and median prices declining on a year-over-year basis. In Massachusetts in April, condo sales dropped 29 percent year-over-year, while the median condo price declined 14 percent. The upper end of the market, including vacation homes, is said to be quite stagnant. Overall, however, contacts seem a bit more optimistic than the last few months.

SECOND DISTRICT--NEW YORK

The Second District's economy has shown signs of stabilizing since the last report, though some sectors continued to weaken. The labor market remains exceptionally slack and has yet to show signs of leveling off. Manufacturing sector contacts indicate that activity has generally stabilized and express increasingly widespread optimism about the near-term outlook. Retailers indicate that sales improved somewhat in May and were roughly on plan but still down moderately from a year earlier. Consumer confidence rose noticeably in April and May, rebounding from a record low. However, tourism activity in New York City showed further signs of softening since the last report. Commercial real estate markets have been mixed since the last report, with Manhattan's market continuing to weaken, but most surrounding markets slack but stable. Housing markets appear to be stabilizing in much of the District but continued to weaken in New York City. Finally, bankers again report increased demand for home mortgages but steady to somewhat weaker demand in other loan categories; they also report further tightening in credit standards and continued moderate increases in delinquency rates across all segments.

Consumer Spending. Retail sales were reported to be roughly on plan in May but still down moderately from a year earlier, with selling prices holding fairly steady overall. Two major retail chains indicate that same-store sales were down by less than 4 percent from a year earlier in May—and roughly in line with plan—following declines of nearly 10 percent in April. One contact notes that lower-priced merchandise lines are generally selling better than premium lines. Overall, selling prices are reported to be stable, and prices paid for merchandise ordered for the 2009 holiday season are little changed from last year. On a weaker note, contacts at two major shopping malls in upstate New York report that sales weakened a bit in April and May, following a relatively stable first quarter, and that a growing number of stores have been closing; they also report that price discounting has picked up again. Auto dealers in upstate New York report that sales are down 20 to 30 percent from a year ago. Declines in unit sales have been a bit less pronounced in the Rochester area than in the Buffalo area. Tight credit remains a major constraint, as auto manufacturers have cut back on financing availability.

The Conference Board reports that consumer confidence among residents of the Middle Atlantic states (NY, NJ, PA), which had fallen to a record low in March, rebounded briskly in April and registered a further moderate gain in May. In contrast, tourism activity in New York City has weakened since the last report. Manhattan hotels report that business had picked up modestly in April, but fell back in May, with revenues falling nearly 40 percent below a year earlier; this compares with drops of 30 percent in April and 35 percent in March. Similarly, Broadway theaters report that business picked up in April but weakened in May: attendance was up 1 percent from a year earlier in April but down 4 percent in May; revenues were up 4 percent in April but down 3 percent in May.

Construction and Real Estate. Commercial real estate markets in the District were steady to weaker since the last report. Manhattan's office market continued to deteriorate, with vacancy rates climbing and asking rents on Class A space down 17 percent from a year earlier as of the end of May. However, office markets in surrounding areas, as well as in upstate New York, have remained relatively steady thus far in the second quarter. Vacancy rates and asking rents were little changed in Westchester and southwestern Connecticut, and in the Albany and Syracuse areas; conditions weakened slightly in Long Island, northern New Jersey, and metropolitan Rochester, while conditions strengthened slightly in the Buffalo area. On the other hand, industry contacts note that the office purchase market remains exceptionally sluggish throughout the District, and that there is virtually no new development being started. The rental market for industrial space overall continued to soften moderately in April and May, as did the rental market for retail space.

Housing markets remained soft throughout the District, with ongoing deterioration reported in New York City—both in the rental and sales markets—but signs of stabilization indicated in other parts of the District. An authority on New Jersey's housing industry maintains that the market for new homes continues to slacken but that the market for existing homes appears to have stabilized; sales volume has reportedly picked up as sellers have reduced prices, which are now running an estimated 12-15 percent below a year ago. One real estate agent in suburban New Jersey reports that the market for more moderately-priced homes (under $600K) has picked up somewhat in recent months—some sellers that have reduced their prices noticeably have received multiple offers. A contact in the Buffalo area reports that sales activity has picked up somewhat since March and that home values have remained stable. Contacts across much of the District indicate that new residential construction has virtually ground to a halt.

New York City's apartment sales and rental markets have continued to soften since the last report. A leading residential appraisal firm notes that market conditions continue to deteriorate—particularly for new buildings, many of which are less than half occupied. Sales activity is reported to be down 50 percent from a year ago in Manhattan, and down 25-30 percent in Brooklyn and Queens. Prices for Manhattan apartment resales are reported to have fallen by roughly another 5 percent since the first quarter and are running roughly 25 percent lower than a year ago, though price moves have been quite erratic due to thin volume. Manhattan's rental market has also continued to soften, partly reflecting increased supply, as many landlords are renting out units that are not selling. Asking rents are reported to be down 5-10 percent from a year earlier in May, but the decline in effective rents has been much steeper due to the widespread and growing practice of waiving of rental fees and offering one or more months of free rent.

Other Business Activity. Contacts in the District's manufacturing sector report that conditions have generally stabilized since the last report, and a majority foresee improvement in business conditions over the next six months. In assessing the labor market, however, contacts continue to report a contracting workforce at their firms, on balance, though employment is expected to level off in the months ahead. A trucking industry contact notes that shipping volumes continued to decline in April and were down 13 percent from a year earlier—the steepest year-over-year drop since the mid-1990s.

Contacts in service-sector industries generally report that both business conditions and employment levels continued to weaken in May. A securities industry contact notes that firms are generally showing profits in the current quarter, reflecting low interest rates, an upturn in the equity markets, and a pickup in underwriting activity. There are scattered reports of hiring in the financial sector—mainly at smaller firms and accounting firms—but these are being swamped by ongoing layoffs at large financial firms, mainly related to mergers in the industry. A leading New York City employment agency notes that, despite some pickup in hiring activity, there has been no noticeable change in the large queue of job-seekers; there are very few opportunities for people now graduating from college, and a sizable proportion of 2008 graduates are still looking for work.

Financial Developments. Small to medium-sized banks in the District report mixed results on loan demand: increased demand is again noted in the residential mortgage category; demand for loans in the commercial and industrial loan category decreased, while demand for consumer loans and commercial mortgages held steady. Bankers continue to note increased demand for refinancing. For all loan categories, respondents indicate a tightening of credit standards, and no banker reports an easing of credit standards. Respondents indicate increased spreads of loan rates over costs of funds on commercial loans and mortgages, on net, but decreased spreads on home mortgages; no change is reported in the consumer loan category. Nearly three in four respondents cite a decrease in the average deposit rate. Finally, bankers report increased delinquency rates for all loan categories—the proportions reporting increased delinquencies range from 28 percent of respondents in the consumer loan category to 44 percent in the commercial mortgage loan category.

THIRD DISTRICT – PHILADELPHIA

Economic activity in the Third District continued at a slow rate in May. Manufacturers, on balance, reported declines in shipments and new orders. Retailers gave mixed reports, noting gains in sales during the month at discount stores but weakening sales at stores selling higher-priced merchandise. Motor vehicle dealers indicated that sales remained sluggish. Bank loan volume has been level in recent weeks, and credit quality has continued to deteriorate. Residential real estate sales showed a slight seasonal gain in May but remained below the level of a year ago. Nonresidential real estate investment and construction activity continued to be slow. Service-sector activity has been generally slow in recent weeks. Business firms in the region reported level or falling input costs and output prices in May.

The outlook in the Third District improved slightly in May. Although contacts do not foresee substantial increases in activity in the near term, more now believe the decline in economic activity might be near a bottom. Manufacturers forecast a rise in shipments and orders during the next six months. Retailers expect sales to gain strength slowly, but auto dealers expect sales to remain slow for the rest of the year. Bankers anticipate little growth in lending. Residential real estate agents and home builders believe market conditions might be stabilizing, but they do not expect sales to move up solidly until next year. Contacts in nonresidential real estate expect leasing and purchase activity to remain weak during the balance of the year but perhaps move up somewhat during the fourth quarter. Service-sector firms expect activity to be slow during the next few months, at least.

Manufacturing. Third District manufacturers reported declines in shipments and new orders, on balance, from April to May at about the same rate as the decline from March to April. Around 40 percent of the manufacturers surveyed noted decreases in both measures, and around 20 percent reported increases. Among the District’s major manufacturing sectors demand remains especially weak for primary metals, industrial machinery, and electrical equipment. In contrast, producers of furniture, metal products, and industrial materials reported some increases in orders during May.

The outlook among Third District manufacturers is positive despite the current weakness, and the level of optimism has improved since the last Beige Book. Among firms polled in May, around one-half expect new orders and shipments to increase during the next six months and around one-tenth expect decreases. However, most of the manufacturers surveyed in May expect recovery to be slow and uneven. Typical comments are “the business outlook is very uncertain,” and “sales improvement will be small.”

Retail. Third District retailers gave mixed reports on sales in May. Discounters and other low-priced stores indicated that sales improved somewhat during the month, but stores selling luxury brands and higher price-point merchandise generally reported continuing sluggishness in sales. The chief executive of a large chain store said, “We are a value proposition, so we are benefitting from uncertain economic times.” In contrast, an executive at a high-fashion chain store said, “Luxury is in the tank.” Retailers in the region generally do not expect a strong improvement in sales during the rest of this year. Most are of the opinion that consumers will not step up spending significantly until economic conditions in general, and employment in particular, rebound.

Third District auto dealers reported that sales remained very sluggish in May. Dealers said demand for motor vehicles continued to be hampered by weak economic conditions, limits on the availability of financing for vehicle purchases, and consumers’ concern about the future of domestic automobile manufacturers. Dealers expect sales to remain slow for the rest of the year, and they expect closings and consolidation among dealerships to increase during the balance of this year and into next year.

Finance. Total outstanding loan volume at Third District banks has been nearly level in recent weeks, according to bankers contacted for this report. There has been a small increase in consumer credit but decreases in commercial and industrial lending and residential mortgages. The slowness in business lending reflected a general slowdown in expansion by firms, according to bank lending officers, as well as what one described as “a lack of credit-worthy business borrowers.” Most of the banks contacted in May said that credit quality continued to deteriorate for all categories of lending. Banks have stepped up sales of repossessed real estate, and they have increased efforts to resolve nonperforming commercial loans. Bankers generally expect demand for credit to remain restrained for the near term, although some think loan growth could resume slowly toward the end of the year.

Real Estate and Construction. Residential real estate activity in the Third District in May remained well below the level of a year ago, although residential real estate agents and builders reported a seasonal pickup in sales. Real estate agents generally indicated that the sales increase has been relatively greater for lower-priced houses than for more expensive houses. One agent explained, “The lower-price range is more active now, with a boost from the first-time buyer tax credit.” Agents reported declining inventories of both new and existing houses in some parts of the region, but in most areas the number of days houses are on the market before being sold has been unchanged since the winter. Builders and real estate agents continued to describe current market conditions as “stabilizing” rather than rebounding. Most of those contacted for this report do not expect a solid upturn in residential sales or construction until next year.

Nonresidential real estate firms indicated that construction, leasing, and purchase activity remained low in April and May. Vacancy rates in office and industrial buildings have been rising. Economic uncertainty has prompted “short-term transactions, downsizing, and consolidation of existing spaces,” according to one contact. Rental rates have been easing, with greater declines in Class B than Class A buildings, according to leasing agents. Contacts expect nonresidential real estate leasing and construction activity to remain weak through the rest of the year, but some believe that lack of new construction could result in a tightening in the market by the end of the year.

Services. Service-sector firms reported a continuation of slow activity since the last Beige Book. Firms that provide services to the construction and real estate sectors reported declines in business and reductions in employment. The region’s service-sector firms generally anticipate that soft conditions will persist for most of the balance of the year. Some business service firms said they expect business to improve next year, and a few said they were making plans to expand by making acquisitions or by extending the range of services they offer.

Prices. Reports on input costs and output prices indicate mostly steady or falling prices since the last Beige Book. Manufacturing firms noted decreases for most of the materials they use as well as the products they make. Construction firms said the prices of most building materials have been steady, although there have been recent increases for a limited number of products. Retailers indicated that their cost of goods has been about steady, and they have kept selling prices in check. Several contacts noted that there has been an increased effort to reduce costs in their industries. For example, a retailer said suppliers of some merchandise have eliminated certain features or substituted less expensive materials in their products, and a builder noted that he has redesigned some houses to reduce material and labor costs.

FOURTH DISTRICT – CLEVELAND

Economic activity in the Fourth District weakened somewhat since mid-April. Reports from factories show an appreciable decline in production and new orders. Residential construction remains weak, while commercial and industrial building decreased. Commercial and residential builders reported that project financing is very difficult to obtain. On balance, sales by District retailers were stable. New motor vehicle sales slowed, while purchases of used vehicles showed a modest improvement. Coal production fell substantially, with little change noted in oil and gas output. Freight transport volume remains at low levels. Refinancing applications for residential mortgages remain very strong, though other types of consumer lending were characterized as stable. Commercial and industrial lending activity is mixed. Core deposits grew strongly.

Employment declines were seen in manufacturing, commercial construction, and energy. Staffing firms reported a falloff in job openings. Given the weak labor market, wage pressures are contained. For the most part, input and product prices were stable or declining. Capital spending has been frozen or trimmed back to mainly critical maintenance projects.

Manufacturing. Reports from District factories show that production had either stabilized at low levels or declined further during the past eight weeks. Almost a third of our contacts noted a downward trend in new orders. On a year-over-year basis, factory output fell sharply. Manufacturers expect demand will stay below 2008 levels through the remainder of 2009. A majority of steel producers and service centers reported that the sharp decline in shipping volume is showing signs of leveling off, but volume remains at depressed levels. The only end market cited as showing some stability is defense. Most respondents anticipate a bottoming out in the third quarter, although the steel industry is not expected to turnaround through year’s end. District auto production showed a small rise during April on a month-over-month basis due to an increase in foreign nameplate output. On a year-over-year basis, both domestic makers and foreign nameplates experienced a sharp drop in production.

Most of our contacts reported that their capital budgets are frozen or have been cut back significantly. Some manufacturers told us that they are limiting expenditures to critical maintenance projects. Capital spending is expected to stay at depressed levels until the economy turns around. For the most part, raw materials prices and product pricing were stable or declined, and little inflationary pressure is expected during the next 12 months. A majority of our respondents made further reductions in payroll costs through layoffs, wage cuts, and reductions in production hours. Predictably, wage pressures are contained.

Real Estate. Although the residential construction industry remains weak, most builders are more optimistic than earlier in the year. A majority of survey respondents reported an uptick in sales activity and a significant boost in Internet and foot traffic since our last report. However, an equal number noted that their sales are also down on a year-over-year basis. Most builders are finding it very difficult to obtain financing and believe the existing credit environment will impede a recovery in the housing industry. Builders expect that activity will remain at current levels for the next few months, but are hopeful that a sustained pick-up may be forthcoming by year’s end. A majority of builders reported dropping the list prices of homes between 3 and 10 percent during the past couple of months, with little change in discounting. General contractors continue to operate with skeleton crews, and subcontractors are readily available at competitive prices.

Reports on nonresidential construction activity were mixed, but leaned toward the downside. Builders involved in public works projects were more positive in their outlook than those in commercial and industrial development. In general, backlogs and inquiries are down significantly on a year-over-year basis. We heard numerous reports of difficulties in obtaining financing that resulted in some projects being delayed or shut down. Looking forward, most commercial builders do not see conditions improving during the next few months. Construction materials prices are stable to declining, while subcontractors are readily available at very competitive rates. A few general contractors reduced their workforce since our last report.

Consumer Spending. Reports showed that April sales for District retailers were mixed on a month-over-month basis, though none of our survey respondents indicated a major shift in activity. Further, most retailers expect little change during the third quarter, with the exception of food sellers, who anticipate a rise in sales. On balance, vendor and retail pricing has been stable. Accounts from auto dealers indicate that new vehicle sales slowed during the past few weeks, while purchases of used vehicles showed a modest improvement. Most dealers believe that until the major issues affecting the auto industry are resolved, they will not experience a sustained increase in new vehicle sales. On the whole, there has been little change in staffing levels at retailers and auto dealers. Capital expenditures by retailers remain on plan, but have been trimmed back from 2008 levels.

Banking. Demand for commercial and industrial loans is decidedly mixed, with several community bankers commenting that they continue to attract business from regional competitors. In general, interest rates on business loans are holding steady. On the consumer side, refinancing applications for residential mortgages remain very strong, as interest rates stayed low. Other types of consumer lending were characterized as stable, with little change in loan pricing. Some survey respondents reported increased activity in auto loans, especially for used vehicles. Core deposits have risen sharply, even as competition for deposits has lessened. On balance, credit quality for consumer and business loan applicants has deteriorated slightly. Most bankers reported an increase in the number of loan delinquencies, especially those tied to real estate. Higher lending standards remain firmly in place, with no easing expected. There has been little change in staffing levels, though some banks reported cutting the number of hours worked and delaying the hiring of replacement workers.

Energy. Coal executives reported production declines, and they do not see a turnaround until electric utilities work through their excess coal inventories. Little change in oil and gas production was reported, though drilling activity has declined substantially in most regions. Coal prices have dropped sharply, while natural gas prices remain depressed and oil prices are beginning to rise. Prices paid for production equipment and materials were stable to declining. Capital spending by coal producers has been cut back and is restricted to some critical maintenance projects, while expenditures by oil and gas producers remain as projected. We heard several reports of workforce reductions and cuts in overtime.

Transportation. Freight transport executives reported that shipping volume remains at low levels; however, the drop-off experienced earlier this year has abated. On average, shipments are down substantially on a year-over-year basis across all market segments. Any recent uptick in business was attributed to seasonal factors. Most survey respondents expect activity to stay at current levels through at least the third quarter of 2009. Shipping rates remain competitive, while vendor prices show little movement. Capital spending is below 2008 levels, and expenditures are restricted to replacement only. On the labor front, hiring is limited to driver turnover, and we heard a few reports of wage cuts or freezes.

FIFTH DISTRICT–RICHMOND

Overview. Although economic activity in the Fifth District remained sluggish in recent weeks, some encouraging trends are beginning to emerge. District manufacturers reported a rise in demand as new orders and shipments grew. Contacts at District ports observed weak conditions, but noted signs of potential improvement. Residential lending activity picked up as contacts noted an increase in purchase loans, while residential real estate agents also reported an overall uptick in sales activity. Commercial real estate contacts observed a modest increase in leasing activity, although vacancy rates inched up in most markets and reports of rent declines and concessions were common. Nonetheless, demand for commercial loans remained weak with some continued deterioration in credit quality. Retail revenues – including big-ticket sales – generally declined since our last report, as did revenues at services firms. Retail price growth slowed, according to contacts, while prices at services firms declined. Temporary employment activity was weak, although some agents expected improvement in the next few months.

Retail. Retail sales were generally down in recent weeks, although there were scattered reports of improvement. Most retailers said sales contracted; however, contacts at several grocery stores and executives at two central North Carolina chain department stores said revenues and foot traffic increased in recent weeks. Big-ticket sales, including sales of automobiles and light trucks, fell sharply; however, contacts at a few auto dealerships expressed optimism for sales in the months ahead. Despite losing a franchise contract, a dealership in West Virginia will continue to sell other makes of vehicles, including imports. A Washington, D.C., area automobile dealer told us that his business was “hiring and ramping up inventory.” Employment reductions continued at many retail establishments. Average retail wages edged up, although a contact at a chain department store and another at a hardware store chain reported wage freezes for all employees in 2009. Retail price growth slowed since our last report.

Services. Revenues weakened at services-providing firms in recent weeks. Contacts at professional, scientific, and technical services firms said business had slowed; an executive at a northern Virginia telecommunications firm reported "losing business to freelancers who will work for anything." In addition, executives at healthcare systems and hospitals noted steady to slower demand for services, and restaurant owners across the District reported lower year-over-year sales. Services firms cut workers and average wages were lower. Prices fell slightly at services businesses.

Manufacturing. District manufacturing activity rebounded in late April and May following 12 months of decline. Contacts reported strong increases in new orders and shipments and noted that the recent weakness in employment had moderated somewhat. In particular, demand was notably stronger for apparel, chemicals, fabricated metal, food, furniture, lumber, and stone manufacturers. A producer of residential doors in North Carolina told us that demand had picked up slightly, which he attributed to customers needing to replenish depleted inventories. A primary metals producer in South Carolina also reported an uptick in sales due to an increase in demand for storm windows and doors used in constructing mobile and modular homes. A contact at a chemical manufacturing firm in South Carolina noted a pickup in orders and was optimistic about the next few months. On the price front, contacts indicated that raw materials prices grew at a quicker pace, while finished goods prices grew more slowly.

Activity at District ports remained weak in recent months, but contacts noted signs of possible improvement. An increased number of empty containers were shipped out of one District port – indicating a potential rise in imports in the near future – while exports at another port were "finally starting to move." Total shipments, however, were still notably below year-ago levels.

Finance. Demand for residential mortgages picked up somewhat since our last report. Contacts noted an uptick in purchase loans, which accounted for approximately 50 percent of lending activity. Demand for refinances began to wane in some pockets of the Fifth District in recent weeks as interest rates edged up slightly, while loan officers in other areas reported difficulty keeping up with the continued demand for refinances as purchases took priority. Credit standards were generally unchanged since our April report, but contacts noted some modifications to conform with Freddie and Fannie guidelines. In commercial finance, demand for loans remained weak. Commercial loan rates were flat to slightly higher, with contacts reporting floors added to variable rates. Credit standards in commercial lending were also generally unchanged. Lenders reported continued deterioration in the credit quality of existing clients, although the rate of deterioration had subsided a bit.

Real Estate. District residential real estate agents generally reported an uptick in sales activity in recent weeks, which a few agents attributed to seasonal increases. Agents in Washington, D.C., Charlotte, N.C., and Greensboro, N.C., reported increased foreclosure sales. The Charlotte contact reported foreclosure sales to be “outrageous” and noted that foreclosures accounted for half of his agency’s business. Multiple offers on the same properties were observed in the D.C., area. An agent in Fredericksburg, Va., reported that her inventory level had dropped by 10 percent, and a Realtor in Fairfax, Va., noted strengthening sales across the board, which he attributed to low interest rates. Most Realtors mentioned that the low- to middle-priced houses were selling the best and several agents said that first-time homebuyers dominated that market. House prices were reported to be dropping or holding steady across much of the District.

In commercial real estate markets, leasing activity increased modestly since our last report, although it continued at a slow pace. Agents in northern Virginia, Charleston, W.Va., Greensboro, Charlotte, and Columbia, S.C., reported a slight uptick in leasing activity – mostly for office and industrial properties. Elsewhere in the Fifth District, however, contacts reported the pace of leasing activity as unchanged or slower in recent weeks. Rental rates declined across most District markets while concessions remained common. Charleston, W.Va., was an exception, however, as contacts saw no concessions and observed a proposed rent increase for one renegotiation. Vacancy rates inched up across property types in most markets and available sublease space increased in Washington, D.C., Raleigh, N.C., and Charlotte, although the Charlotte contact noted that available space was not near 2001 levels. Commercial sales activity remained subdued. Agents reported some listings and interest, but noted that reduced property values were discouraging sellers from listing properties, and a lack of affordable financing was deterring buyers. Sales prices started to come down in northern Virginia and Charlotte, but a lack of transactions made prices hard to gauge in other markets.

Tourism. Although tourist activity along the coast was a bit weaker compared to a year ago, contacts on the Outer Banks of North Carolina and in Virginia Beach, Va., told us that bookings over the Memorial Day weekend were somewhat stronger when compared to our last report. A manager at a hotel in Virginia Beach said they were filled to capacity over the Memorial Day weekend and bookings had generally started to look better in recent weeks. A contact from the Outer Banks of North Carolina noted that the wedding industry showed no sign of cutting back, but indicated that rental sales and hotel bookings were somewhat weaker than last year. However, a manager at a mountain resort in Virginia said holiday bookings were somewhat stronger than last year, and time share sales were robust. The contact also expected tourist activity to be equally as strong six months from now.

Temporary Employment. Activity in this sector continued to be generally weak in recent weeks. A Raleigh, N.C., agent told us that demand for his workers would continue to be extremely slow over the next several weeks due, in part, to a slowdown in manufacturing work; however, he expected a substantial pick up in July. Another agent in the Raleigh area anticipated stronger demand due to the improvement in confidence in the business community. Meanwhile, a Richmond, Va., contact observed “somewhat weak” demand, citing the sluggish economy. Workers skilled in IT, management, administrative assistance, and sales were some of the most sought after.

Agriculture. Sunny, dry conditions facilitated planting and field work in many areas of the District. However, rain and below-average temperatures hindered soybean and peanut plantings in South Carolina, while pasture conditions in the state improved notably. In Maryland, North Carolina, and Virginia, farmers were busy planting vegetables and row crops. Peach harvesting had just begun in South Carolina. Peach and apple conditions in West Virginia ranged from fair to excellent, with most orchards in good condition. In addition, hay harvesting was widespread in Maryland, the Carolinas, and Virginia with reports indicating that the first cut looked very good.

SIXTH DISTRICT – ATLANTA

Summary. Sixth District business contacts reported that economic activity continued to contract in late April and May, although the pace of decline had moderated in some industries and most noted that their outlook had improved. Information from retailers was consistent with sluggish consumer spending, but sales were largely in line with modest expectations. Most auto dealers noted further declines in sales, while tourism-related spending slowed further in late spring. Real estate contacts suggested that ongoing weakness in home sales had moderated in several areas and inventories of unsold single-family homes were trending down. However, most commercial construction reports remained negative as vacancy rates continued to rise. Fewer manufacturers cited reduced production and orders than in the previous report, although overall activity remained quite weak. Banking contacts remarked that general business and consumer loan demand was soft. Labor market conditions continued to be weak, although fewer firms reported layoffs than earlier in the year. Price pressures remained relatively stable throughout the District.

Consumer Spending and Tourism. Sales and traffic remained at low levels in late April and May, but largely in line with modest expectations according to District retailers. Merchants' outlook remained subdued with regard to future sales. Most regional auto dealers noted further declines in sales, with several pointing to reduced credit availability and industry uncertainty as reasons for the poor results.

Tourism-related spending weakened according to several contacts. Although theme park attendance and cruise bookings were relatively stable, promotions and discounting were acknowledged as playing a significant role. Overall, vacationers were said to be spending less. In addition, inbound international travel continued to trend down from a year earlier, while business-related travel and convention attendance also declined.

Real Estate and Construction. Reports from Realtors indicated that existing home sales were stabilizing overall. Florida contacts noted that the steady improvement in sales over the past several months moderated somewhat in April, whereas other parts of the District experienced minor gains over the month. Homebuilders noted that new home inventories were trending down on a year-over-year basis as construction remained at low levels and new home sales improved modestly. Home sales prices continued to decline according to most reports. The outlook for sales strengthened in April according to most Realtor and homebuilder contacts.

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

Manufacturing and Transportation. Most regional manufacturers indicated that the rate of decline in production and orders had moderated in April. For the coming months, most manufacturing contacts noted more optimism regarding future production and employment than in previous reports.

District transportation contacts reported ongoing weakness in freight activity through mid-May compared with a year earlier. Auto, chemical, and construction-related rail shipments declined further. Trucking contacts servicing the retail industry noted much lower tonnage than a year earlier.

Banking and Finance. Several business contacts reported difficulty meeting financing needs because of restricted availability of credit. Roughly one-quarter of non-auto retailers, and one-third of non-financial/non-retail contacts cited some difficulty obtaining loans for inventory purposes. Auto dealers, in particular, said that obtaining vehicle inventory financing was very challenging. Banking contacts continued to indicate generally low levels of demand for new loans and increased use of existing lines of credit.

Employment and Prices. Labor market conditions continued to be weak. Many firms reported additional cuts in hours or had instituted mandatory unpaid days off for some staff. State and local governments were also reducing payrolls because of budgetary pressure. However, the pace of layoffs appears to have slowed, as fewer firms reported layoffs than earlier in the year. There were also scattered reports of increased temp hiring, although several contacts noted that these positions were largely seasonal in nature.

Homebuilders and manufacturing firms continued to report that prices paid for both raw materials and imported finished goods were below year-earlier levels. Retailers noted a reduction in price discounting compared to previous months, and a majority of merchants reported that selling prices were generally on par with a year earlier.

Natural Resources and Agriculture. District energy contacts indicated that a growing portion of energy production in the region has been idled in response to lower prices earlier in the year. However, one major production facility in the Gulf of Mexico began operations in May. The platform is expected to make a major contribution to national oil and natural gas output once it reaches full production.

Above normal rainfall soaked most District farm areas. District growers experienced a pickup in prices and are hoping for a continued rebound in the coming months.

SEVENTH DISTRICT—CHICAGO

Summary. Overall, economic activity in the Seventh District weakened in April and May. Consumer spending decreased and the pace of business spending slowed. Construction activity continued to be weak, although residential real estate conditions showed some improvement. Both manufacturing activity and labor market conditions deteriorated further. Credit conditions improved, but remained tight for some firms. Downward pressure on prices and wages diminished. Wet weather delayed planting of both corn and soybeans in the District.

Consumer spending. Consumer spending decreased from the previous reporting period. Retail sales fell, with households remaining focused on necessities and holding back spending on luxury and big-ticket items. Inventories were indicated to be very low in anticipation of sluggish sales. Auto dealers reported a small increase in sales in recent weeks as a result of incentives and promotions, but not a large enough pickup to completely offset the drop in vehicle demand earlier in the reporting period. Inventories remained high, and several dealers indicated that they continued to be concerned with obtaining floor plan financing. In contrast, used car sales were stronger and service department activity was robust. Contacts also expressed the belief that although the closing of dealerships will likely weigh heavily on Chrysler and GM in the near term, it would improve the long-term profitability of both the companies and their dealers. In addition, a contact noted that many of the affected dealerships had already significantly reduced their operations.

Business spending. The pace of business spending slowed in April and May. Several contacts reported postponing capital expenditures until economic activity improves, which most saw taking place near the end of this year. In contrast, a contact noted that many of his retail customers had resumed renovation and expansion plans they had put on hold last year when credit conditions first tightened. Labor market conditions in the District continued to deteriorate. Job losses in professional services were noted to have increased, and additional layoffs were reported in manufacturing, most notably in the auto sector. In addition, a contact noted that some local government entities had cut back on hiring due to budget constraints. Some contacts again indicated trying to avoid layoffs and retain skilled labor by further reducing hours per worker. A staffing firm reported that billable hours had stabilized in recent weeks. However, hiring remained low outside of education, healthcare, and technical fields such as engineering and information technology, and contacts indicated that most firms remained cautious about expanding their work forces.

Construction/real estate. Overall, construction activity in the District remained weak. Residential construction was minimal, and housing inventory remained elevated. However, residential real estate conditions improved some from the previous reporting period. Several contacts reported increases in showroom traffic and sales in both the single and multi-family markets driven by recent declines in prices and mortgage rates. Sales were concentrated in lower priced homes reflecting what a contact indicated was a trend toward smaller, high amenity houses. Refinancing also continued to be strong, although some potential borrowers were finding it difficult to qualify for loans due to losses in home equity. Nonresidential construction declined further, with previous areas of strength such as infrastructure and healthcare weakening. Property values and rents also declined, as vacancy rates and available sublease space increased, particularly in the office and retail sectors. Industrial construction activity also was weak, with one contact noting cancellation of a substantial amount of his business from automotive suppliers. In addition, developers again cited limited credit availability. A contact indicated that while funds were available for investment in distressed real estate, lending for new projects remained limited.

Manufacturing. Manufacturing activity in the District weakened, with only pharmaceuticals, power generation, and defense-related aerospace experiencing strength in demand. Exporters reported that the demand from abroad was weak apart from Asia. Steel service center inventories remained lean, although several manufacturers noted that their distributors were still working through their higher-priced inventories. Other metals-related industries also noted weak conditions, although some contacts indicated that the pace of decline in activity had leveled off. Reports from contacts with exposure to the auto industry were particularly negative. Several automotive and other manufacturing contacts reported planning to continue to make use of temporary production shutdowns through the rest of the year. In contrast, automakers indicated that sales in May, while low, were above expectations and that inventories were at desirable levels. Manufacturers of heavy trucks and machinery cited further weakness in demand. Contacts also noted that elevated inventories were putting pressure on distributors, and that the decline in rental business and a robust used equipment market was contributing to fewer sales of new equipment. Manufacturers with ties to housing indicated that activity continued to be soft. However, a contact in the home appliance industry noted recent signs of stabilization in the pace of decline.

Banking/finance. Credit conditions in the District improved in April and May, but remained tight for some firms. Financial market contacts indicated an increased appetite for risk on the part of investors. Merger and acquisition interest from abroad was noted to have increased, and private equity was indicated to be more available with deals being made in the industrial and real estate sectors. Furthermore, a contact reported that financing costs for a number of area corporations had improved substantially since the previous reporting period. Banking contacts indicated that the tightening of standards had abated, but uncertainty over further price declines in real estate markets and the resolution of the GM and Chrysler bankruptcies limited lending to these sectors. Contacts also expressed concern about commercial real estate, noting that declining values and downward pressure on rents was leading to requests for renegotiation of loans by property owners. With many of these loans coming due for refinancing between now and 2011, there was also concern about their quality. A contact cited as evidence of this fact recent ratings downgrades and increases in CMBS spreads.

Prices/costs. Contacts again reported closely monitoring their costs. However, downward wage pressures were less prevalent during this reporting period as contacts indicated firms were instead containing labor costs by reducing workers' hours or by cutting their labor forces. Prices declined further for inputs such as steel. Energy prices increased, but a contact noted that gas stations have not been able to pass on all of the recent increase to fuel prices. More generally though, materials prices were little changed during this reporting period. This stability occurred despite the view of some contacts that prices had not fallen as much as had been expected given the sharp decline in activity in sectors such as manufacturing and construction.

Agriculture. Wet fields forced delays in planting during April and May in the District, particularly in Illinois and Indiana. By the end of the reporting period, farmers had planted over half of their corn acres. Still, corn planting was behind the typical pace except in Iowa. Soybean planting was behind as well. Also, the emergence of corn and soybean plants lagged normal rates across much of the District. Lower milk, cattle, and hog prices and higher costs for feed worsened the income prospects for livestock producers. Hog farmers had an especially difficult spring due to the large drop in hog prices after the H1N1virus (swine flu) scare. However, hog prices had recovered some by the end of the reporting period. Fertilizer sellers booked losses as farmers held back on purchases in anticipation of recent wholesale price declines showing through downstream.

EIGHTH DISTRICT—ST. LOUIS

Summary. The economy of the Eighth District has weakened further since our previous report. Activity in the manufacturing and service sectors declined further. Retail and auto sales in April and the first half of May were down from a year ago. Residential and commercial real estate markets continue to be weak. Overall lending at a sample of large District banks decreased moderately during the first quarter of 2009.

Consumer Spending. Contacts reported that retail sales in April and the first half of May were down, on average, over year-earlier levels. About 56 percent of the retailers surveyed saw decreases in sales, 40 percent saw increases, and 4 percent saw no change. About 39 percent of respondents reported that sales levels met their expectations, 33 percent reported that sales were below expectations, and 28 percent reported that sales were above expectations. Lawn and garden products were strong sellers, while bedroom furniture moved more slowly. About 40 percent of contacts reported that inventories were at desired levels, 44 percent reported too-high inventories, and 16 percent reported too-low inventories. About 52 percent of retailers expect summer sales to decrease over 2008 levels, 32 percent expect sales to increase, and 16 percent expect sales to be unchanged.

Car dealers in the District reported that, compared with last year, sales in April and the first half of May were down, on average. About 83 percent of the car dealers surveyed saw decreases in sales, 13 percent saw increases, and 4 percent saw no change. About 21 percent of the car dealers noted that used car sales had increased relative to new car sales, while 17 percent reported the opposite. Also, 29 percent reported an increase in low-end vehicle sales relative to high-end vehicle sales, while 8 percent reported the opposite. About 58 percent reported more rejections of finance applications, and none reported fewer rejections. About 29 percent of the car dealers surveyed reported that their inventories were too high, while 25 percent reported that their inventories were too low. About 71 percent of the car dealers expect summer sales to decrease over 2008 levels, 21 percent expect sales to increase, and the remaining 8 percent expect sales to be unchanged.

Manufacturing and Other Business Activity. Manufacturing activity has continued to decline since our previous report. A large number of firms announced job layoffs and contraction of production, while a much smaller number of contacts reported plans to hire additional workers. Several manufacturers reported plans to close plants and reduce operations in the near future. Several firms in the auto parts and automobile manufacturing industries reported plans to permanently lay off workers, and at least one firm announced that it will close its operations in the District. Two firms in metal product manufacturing announced plans to close a facility in the District. Firms in primary metal manufacturing announced layoffs and idled production. Firms in machinery manufacturing and furniture manufacturing also closed plants, and a major firm in animal slaughtering/processing idled production. Finally, a number of firms in the machinery, climate control systems, food/beverage, electrical components, paper, and plastic product manufacturing industries announced job layoffs. In contrast, a firm in furniture manufacturing and another firm in food/beverage manufacturing announced plans to hire additional workers and expand existing operations.

The District's service sector has continued to decline in most areas since our previous report. Contacts in education, government, medical, and information services announced job cuts. Two firms in transportation/warehousing services announced that they will close a facility in the District and lay off workers. Several cities in the District announced that they will be hiring temporary and part-time summer workers in a range of service industries, using funds allocated through the American Recovery and Reinvestment Act of 2009.

Real Estate and Construction. Home sales continued to decline throughout the Eighth District. Compared with the same period in 2008, April 2009 year-to-date home sales were down 13 percent in St. Louis, 23 percent in Little Rock, 26 percent in Louisville, and 27 percent in Memphis. Residential construction also continued to decline throughout most of the District. April 2009 year-to-date single-family housing permits fell in most District metro areas compared with the same period in 2008. Permits declined 29 percent in Little Rock, 46 percent in Louisville, 45 percent in St. Louis, and 61 percent in Memphis.

Commercial and industrial real estate market conditions were little changed throughout the District. Compared with the fourth quarter of 2008, first quarter 2009 industrial vacancy rates increased in Little Rock but held steady in St. Louis, Louisville, and Memphis. During the same period, suburban office vacancy rates remained roughly the same in St. Louis, Louisville, and Memphis but decreased in Little Rock. Downtown office vacancy rates remained fairly constant in St. Louis, Louisville, and Little Rock but increased slightly in Memphis. Commercial and industrial construction markets continued to decline. Commercial construction contacts throughout the District noted that current credit conditions are stifling new projects and that the overall outlook for the upcoming months is dim. Industrial construction contacts reported that the effects of the recession are just now being fully realized as backlogs have dried up and more projects are being put on hold.

Banking and Finance. A survey of senior loan officers at a sample of large District banks showed a moderate decrease in overall lending activity in the first quarter of 2009 relative to the fourth quarter of 2008. During this period, credit standards for commercial and industrial loans ranged from unchanged to tightened somewhat, while demand for these loans ranged from about the same to moderately weaker. Credit standards for commercial real estate loans were tightened during this period, while demand for these loans was weaker. Credit standards for consumer loans ranged from unchanged to tightened somewhat, while demand varied slightly from weaker to moderately stronger. Credit standards for residential mortgages were tightened, while demand for these loans ranged from about the same to moderately weaker.

Agriculture and Natural Resources. Frequent wet and cool conditions since early April have caused fieldwork delays throughout the District. Planting of the major crops—corn, soybeans, sorghum, cotton, and rice—was behind its 5-year average pace. Emergence of the major crops was also behind normal throughout most of the District. At least 80 percent of the winter wheat and at least 88 percent of the pastures in every District state were rated fair or better. The average rating for pastures in the District states was slightly better, while the average rating for winter wheat was slightly worse than the same time last year.

NINTH DISTRICT—MINNEAPOLIS

The contraction in the Ninth District economy moderated since the last report. Modest decreases in activity occurred in the consumer spending, services, residential construction and real estate, agriculture and manufacturing sectors. More substantial drops in activity were noted in commercial construction and real estate, and in the energy and mining sectors. Spring tourism activity was mixed, and residential real estate saw more activity. Labor markets continued to weaken, and wage increases were modest. Price increases remained subdued.

Consumer Spending and Tourism. Consumer spending remained soft, but improved somewhat from the previous few months. A major Minneapolis-based retailer reported that same-store sales in April were essentially flat compared with a year earlier. Recent sales at a Minneapolis area mall were about even with a year ago, as a decrease in sales of luxury items was offset by an increase in sales of more basic goods. Business at a North Dakota mall ran flat to mildly down in May, according to the mall manager. A Montana mall manager noted that sales in April were down from a year ago, but more stores were posting increases than during the previous few months. A Montana pawnshop owner noted a 25 percent increase in items pawned during the first four months of 2009 compared with a year ago. Meanwhile, an executive at a food processing company in Minnesota noted that sales of refrigerated party trays were strong.

Representatives of auto dealers associations in the District reported that a number of domestic dealerships will be closed in their states. A representative of an auto dealers association in South Dakota noted that dealerships were selling some vehicles, but consumers were not buying as they have in the past.

Tourism activity was mixed. According to results of a survey by Minnesota’s tourism department, 57 percent of lodging businesses saw revenue and occupancy fall in April and May compared with the same period a year ago. Spring tourism activity in western South Dakota was up slightly from a year ago, but advance bookings for summer lodging were lower than last year. Tourism activity over Memorial Day weekend in northwestern Wisconsin was strong, and summer reservations at campgrounds and resorts were at solid levels, according to a representative of a chamber of commerce.

Services. Services sector activity decreased overall since the last report. Preliminary results of the Minneapolis Fed's annual survey of professional services companies in May showed decreased levels of sales revenue, employment and profits from a year ago; profits are expected to fall further over the next year. Respondents indicated that labor is more available, but input costs are increasing. Architects reported continued weak demand for their services.

Construction and Real Estate. Commercial construction was anemic. A Minnesota commercial contractor said new construction activity was down significantly from the previous year. Nonresidential permits fell 75 percent in value in Sioux Falls, S.D., from a year earlier. Residential construction was steady at low levels. The value of new housing permits in the Minneapolis-St. Paul area increased in April from the previous month, but was down 14 percent from the same month a year earlier and 72 percent from two years ago. Residential construction activity was about even with last year in Rochester, Minn.

Commercial real estate activity was very slow. The Minneapolis-St. Paul office vacancy rate increased in the first quarter of 2009 from the previous quarters, and is expected to increase further in the second quarter, according to a commercial real estate firm based there. The same firm expects retail vacancy to increase and industrial vacancy to remain stable. The residential real estate market saw more activity. Late May home sales in Minneapolis-St. Paul were up more than a third from the same period a year earlier, while new listings were down more than 10 percent.

Manufacturing. Manufacturing activity decreased since the last report. A May survey of purchasing managers by Creighton University (Omaha, Neb.) indicated that activity declined in Minnesota and the Dakotas. In Montana, several saw mills plan to shut down. A North Dakota construction equipment manufacturer cut production in response to weak demand. A Minnesota electronic components manufacturer reduced production. Some manufacturing contacts from various industries reported some stability of demand after huge drops earlier in the year. Window makers reported increased demand, and a Montana paper mill restarted a production line.

Energy and Mining. Activity in the energy and mining sectors continued to fall. Late May oil and gas exploration tumbled from early April. However, a number of wind energy projects are moving forward. Several District mines curtailed production and shuttered operations. However, District gold mines are at near-capacity production.

Agriculture. Agricultural conditions were hampered by adverse conditions since the last report. Storms caused havoc on calving, as many contacts reported significantly higher than normal deaths. Farmers in the Dakotas were forced to delay plantings due to very wet fields. Meanwhile, drought conditions persisted in western Wisconsin.

Employment, Wages and Prices. Labor markets continued to weaken. In Minnesota, a medical devices firm recently announced plans to eliminate 600 jobs by the end of June, and a cabinetmaker laid off 200 employees during the first few months of 2009. Two health care providers in Minnesota recently announced plans to cut 240 and 100 jobs, respectively. Meanwhile, a Minnesota hospital will eliminate 75 to 100 positions by the end of June. In North Dakota, a construction equipment manufacturer announced plans to cut 250 jobs, and a business travel call center recently closed, affecting 100 jobs. According to the Minnesota Department of Employment and Economic Development, job seekers are taking 20 weeks to find new jobs compared with 13 weeks a year ago. The South Dakota Labor Department noted that preliminary indications for summer employment in 2009 were uncertain, students could find themselves competing with laid-off primary wage earners.

Wage increases were modest. Businesses responding to the Minneapolis Fed’s services survey reported expected wage increases at their firms of 1.8 percent and benefit increases of 1.5 percent over the next four quarters.

Price increases remained subdued. A representative of a construction company in South Dakota noted that costs this spring were about the same as in 2008; lower lumber and drywall prices were balanced by slightly higher prices for fixtures, wiring and components. In the aforementioned services survey, 20 percent of respondents expect selling prices to decrease during the upcoming year, while 21 percent expect selling prices to increase. However, Minnesota gasoline prices were up almost 50 cents per gallon at the end of May compared with April, but still $1.38 lower than a year ago.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy declined at a slower pace in April and May with firmer expectations of improvement going forward. Consumer spending was weak and was expected to remain soft. An uptick in manufacturing orders helped stabilize expectations for future production. Residential real estate activity strengthened with stronger sales and increased building permits. In contrast, commercial real estate market conditions deteriorated, and energy activity declined further. Crop conditions held steady while livestock producers cut herds. Bankers reported a rise in deposits and stable loan demand with no erosion in loan quality. Consumer price and wage pressures remained low. Producer prices declined at a slower pace with some firms noting that higher commodity prices boosted material and fuel costs.

Consumer Spending. Consumer spending remained subdued since the last survey period, and most contacts expected soft consumer sales to persist. Retail sales excluding autos were mostly steady, but still well below year-ago levels. Mall and restaurant contacts reported slower traffic and a reduction in the average amount spent. Store managers noted weak demand for luxury items and home furnishings, while sales of basic apparel and sporting goods edged up. A few contacts indicated that recent gas price increases limited consumer spending. Auto sales, especially for new cars, fell further while credit standards remained tight. Still, demand for used cars was strong, and several dealers anticipated sales would stabilize, reducing inventories. Since the last survey, tourism activity and hotel occupancy rates improved with an uptick in seasonal travel, but were below year ago levels.

Manufacturing and Other Services. Manufacturing activity contracted at a slower pace in April and May, and contacts generally expected conditions to stabilize in the coming months. Production of non-durable goods rose, while output fell at plants producing durable goods, especially machinery and furniture. Several transportation companies also reported lighter shipments of durable goods and retail items. Manufacturing orders and shipments edged up since the last survey period keeping inventories at low levels. After steady declines in previous months, export orders fell at a slower pace in May. Future factory activity was expected to hold steady, and fewer companies anticipated staffing reductions. While capital spending at factories remained weak, transportation companies reported increased investment. After a modest increase in sales, demand for high tech services was expected to strengthen.

Real Estate and Construction. Residential real estate activity improved since the last survey period, while conditions in the commercial real estate market continued to deteriorate. Real estate agents attributed a rise in home sales to typical seasonal patterns along with the availability of low mortgage rates and tax credits for qualified buyers. Home inventory levels were down from a year ago, and sales were expected to strengthen further, especially for lower-priced homes. In contrast, higher-priced home sales remained sluggish. Residential construction activity also ticked up with a seasonal increase in the number of building permits issued and solid demand for remodeling projects. Several contacts commented that their local housing market was stabilizing. Commercial real estate activity weakened further and was expected to remain sluggish. Vacancy rates continued to climb, and rental rates have fallen well below year-ago levels. District contacts reported that difficulty obtaining financing remained a primary reason limiting the development of new commercial construction projects.

Banking. Bankers reported more stable loan demand, an increase in deposits, and an unchanged outlook for loan quality since the last survey. Overall loan demand was relatively unchanged after decreasing moderately in the previous survey. Demand for commercial real estate loans continued to fall but at a slower rate than in previous surveys. Also, demand for residential real estate loans rose, demand for consumer installment loans edged up, and demand for commercial and industrial loans was flat following a year of declines. Some banks continued to report tighter credit standards on commercial and industrial loans and commercial real estate loans. However, for the first time in a year and a half, no banks reported tighter standards on residential real estate loans or consumer installment loans. Assessments of current and future loan quality were about the same as in the previous survey. A substantial majority of banks reported increases in deposits, which some banks attributed to continued consumer uncertainty about financial markets.

Energy. Energy activity continued to weaken in April and May and was expected to fall further. The number of drilling rigs operating in the District was down sixty percent from its peak last fall. Despite higher crude oil prices, softer gains in natural gas prices failed to spur drilling activity. One contact commented that it was difficult to obtain approval for drilling permits in Wyoming. Several firms indicated the cost or availability of credit was also limiting energy activity. Profit margins at ethanol plants remained narrow. Wind energy activity continued to expand across the District.

Agriculture. District agricultural conditions held steady since the last survey period. Rainfall in Colorado and Kansas improved wheat growing conditions; however, Oklahoma's wheat crop remained stressed due to prolonged drought and a late freeze. Corn planting was nearly complete, and soybean planting was in progress. Global weather concerns underpinned higher crop prices. With high feed costs and weak meat demand triggering losses, livestock producers have significantly reduced herds. Farmland values held steady and remained above year-ago levels. Lower farm income expectations slowed capital spending and eased non-real estate loan demand, despite further reductions in agricultural interest rates.

Wages and Prices. Consumer price pressures eased, and wage pressures remained low due to soft labor markets. Producer prices remained soft, even though higher crude oil prices raised some material and fuel costs. Manufacturers reported a slower decline in raw materials prices since the last survey period, and prices were expected to ease further. In contrast, builders reported higher prices for supplies, especially roofing products. Rising prices for oil and food commodities were noted by contacts in the transportation and restaurant industries. Retail and restaurant prices, however, edged down and were expected to soften further. Few contacts reported difficultly hiring workers, and the majority of firms did not plan to raise wages.

ELEVENTH DISTRICT—DALLAS

Economic conditions in the Eleventh District remained weak from mid-April to late May, but there were increased reports of stabilization. Contacts in several industries said demand had improved slightly or had firmed since the last survey. Many characterized current conditions as bouncing along the bottom. While outlooks were slightly more optimistic than in past surveys, most contacts said they remain extremely cautious and do not expect any sustained improvement in the near term. Labor market conditions remain soft as firms continue to implement hiring freezes in the face of uncertainty.

Prices. Downward price pressures remain prevalent across industries. Staffing, legal and accounting firms continue to report pressure from clients to discount the price of their services. Retailers said selling prices were mostly steady, although prices of “day-to-day” goods continued to fall. Auto dealers said used car prices were holding up better than new car prices, and at least one contact expected domestic auto prices to drop further. Airline industry contacts noted substantial fare sales in recent weeks. Energy industry respondents said rates charged for routine wellhead work were under pressure as producers demanded concessions reflecting lower commodity prices and revenues.

Most manufacturers said selling prices were flat to down, and there were few reports of any expected increases in the near future. The exception was in the petrochemical industry where prices for some products had edged up with the increase in oil prices. Some manufacturers said input prices had stabilized recently, although there were several reports that construction-related input costs continued to fall.

Light sweet crude oil prices rose from $50 to $60 per barrel from mid-April to late May. U.S. inventories tracked downward in recent weeks, but remain about 15 percent above the 5-year high. Natural gas prices fell back below $4 per Mcf, and contacts expect prices to remain weak over the summer months. Pump prices for gasoline rose 38 cents per gallon during the survey period.

Labor Market. Layoffs continue at some firms, but most contacts said employment levels were steady after cuts earlier in the year. Consolidation in some industries—including primary metals, construction-related manufacturing, homebuilding, staffing services, financial services, and auto dealers—suggest overall employment levels may continue to move down. Hiring freezes remain prevalent. Wage pressures are mostly nonexistent, and many contacts were maintaining or initiating salary freezes or cutting hours and overtime in order to reduce costs.

Manufacturing. Eleventh District manufacturers report soft demand overall, but there were more signs of stabilization, with some contacts reporting a slight improvement in orders. Construction-related manufacturers said business remained weak. Some producers tied to residential construction said the pace of decline had eased and demand was bumping along the bottom. However, those tied to nonresidential construction reported sales continued to decline. Only minor cutbacks in employment were noted. Contacts said there was no impact yet on infrastructure activity arising from the stimulus bill. Primary metals producers said that while demand was still weak, sales had increased slightly—some said the uptick was due to an increase in consumer spending, while others said it was the result of industry consolidation. Outlooks among construction product and metal producers remain poor, but respondents were hopeful conditions were bottoming out.

High-tech manufacturing contacts reported orders had improved slightly since the last survey. Most respondents said the improvement came because business customers were no longer severely paring down inventories. Despite ongoing cautiousness about the outlook, contacts expect a gradual improvement over the next six months.

Paper-related demand was mixed. Contacts in the corrugated box industry said sales had picked up in the past 30 days and outlooks were more favorable. In contrast, orders for printing paper continued to fall as consumers continue to demand fewer printed materials, such as newspapers. Contacts were attempting to clear inventories and there were reports of employment cuts. Demand for food products held steady at current levels and contacts expect conditions to remain much the same in the coming months. Transportation manufacturing activity remains depressed by slow auto and aircraft orders, yet sales of some specialized products have picked up. In particular, a producer of industrial-use trailers noted consistent sales improvement over the past 45 days and is hiring back half of the workers laid off last year.

Many petrochemical products are over-supplied given current weak economic conditions. There were reports of plant shutdowns, although some existing plants had come back on line after hurricane and maintenance problems. Most contacts said orders were weak, although export demand was stronger for ethylene and polypropylene producers as higher oil prices and lower natural gas prices make these domestic gas-based products a bargain.

Refining capacity utilization rates stayed in the 82 to 84 percent range during the survey period and remain about 7 percentage points below a year ago. Respondents said demand for gasoline is down 2.6 percent from a year ago, and demand for distillates is down more than 15 percent as poor economic conditions reduce consumption of diesel fuel. Refinery margins remained relatively weak as oil product prices rose by about the same amount as crude oil prices.

Retail Sales. Retailers noted some improvement in sales activity over the past six weeks, and contacts indicated that Texas continues to fare slightly better than the national average. While activity remains below year ago levels, there has been a trend toward stabilization since the beginning of the year. Contacts were seeing customers return, although they remain very cost conscious and continue to substitute less-expensive store brands for name brands. Outlooks remain quite uncertain and most respondents don’t expect any solid improvement until 2010.

Auto dealers said sales continued to hold steady at low levels. Several contacts said the industry has likely hit bottom and will be “scraping along” for some time. Overall, respondents’ outlooks remained grim for the rest of the year, although some were encouraged by recent gains in consumer confidence.

Services. Staffing firms report a leveling off in activity as layoffs have slowed. While direct hires remain few and far between, demand for contract and temp employees has improved slightly, and the increase is broad based across industries. While outlooks were somewhat more optimistic than the last survey, respondents warned that an upturn is not expected in the near term, and “we are not done with surprises yet.”

Demand for legal services remains soft, especially for corporate and transaction-related services and real estate-related services. Contacts report they are seeing more business deals fall apart, which has started to lead to a pickup in bankruptcy and litigation. Still, the increase is expected to be less than in previous recessions, as more companies appear to be working disputes out themselves in order to avoid legal costs. Several firms reported layoffs, and some had cancelled or scaled back their summer internship programs. Accounting contacts said demand was steady. A seasonal slowdown is expected now that tax season is over.

Eleventh District-based airlines reported weak conditions as concerns about the H1N1 virus dampened already low international and business travel. Low demand has prompted deep fare sales in recent weeks. Despite steady to slight increases in future bookings, airline industry outlooks remain negative for the year. Transportation service contacts in cargo and container trade reported a recent pickup in demand and were hopeful this was a sign that the economy was bottoming out. Still volumes remain well below year-ago levels. Intermodal cargo volumes rose slightly over the past month as export demand improved, and contacts said water-based container trade volume increased. Railroad respondents said volumes declined across the board following a pickup noted in the last survey. The railroad industry outlook remained grim for 2009, but contacts said it looked like the economy was bouncing along the bottom.

Construction and Real Estate. Homebuilders reported a slight uptick in sales. Much of the demand is focused on the lower-priced entry-level market, and one large company said the first-time homebuyer tax credit was responsible for about 80 percent of their current business. There was some concern about the November expiration of the program, however, as buyers have just begun to come off the sidelines. Despite the recent increase in sales, activity remains well below year ago levels and demand in the higher-priced segments of the market remains soft. Home starts remain at very low levels, but outlooks suggest a pickup as inventories have been greatly reduced.

Commercial leasing activity continues to soften, although contacts say conditions in Texas markets remain much better than elsewhere in the country. Sales transactions for commercial real estate properties are almost nonexistent, but contacts say the number of investors waiting in the wings continues to grow, which should lead to more sales by year-end. According to respondents, the re-pricing of properties will be painful but necessary. While some contacts expressed growing concern about the renegotiation of maturing commercial real estate loans, there were reports that credit markets are “beginning to thaw” and that real estate lenders are becoming more interested in making loans on very good deals.

Financial Services. Eleventh District financial services contacts remain very cautious about current conditions. Real estate lending remains scarce. One contact characterized the current situation as a “standoff” with lenders and borrowers waiting to see who can hold out the longest to get the best deal once things have stabilized. Maturing commercial real estate loans were being renewed at a lower leverage and size, if at all. Contacts report a slowdown in consumer loan demand, specifically credit card purchase volume. At the same time, overall credit quality in the region continues to deteriorate. Contacts say they are maintaining tight credit standards. All contacts expected a tough year, but some said conditions were somewhat more stable now than earlier this year.

Energy. Demand for oil services and machinery fell as drilling activity continued to plunge, according to respondents. The number of working rigs in Texas fell by about 15 percent over the past six weeks. The Louisiana and New Mexico rig counts stabilized during the survey period but are down 62 and 27 percent, respectively, from the summer 2008 peak. Contacts in the natural gas industry noted productive shales in Texas, Oklahoma, Arkansas and Pennsylvania and increased efficiency due to new technology may mean a reduced need for operating rigs going forward.

Agriculture. Strong spring rains improved planting and pasture conditions in the north and eastern parts of the District, but dry conditions continue to hamper agricultural production in other areas, particularly Southwest Texas. Drought conditions have increased producers' need for financing. While there were reports of some improvement in livestock conditions in areas that received rain, forages were practically non-existent and producers continued to provide heavy supplemental nutrition to livestock in Southwest Texas. No impact of the H1N1 flu on Texas agriculture was reported.

TWELFTH DISTRICT–SAN FRANCISCO

Summary. Economic activity in the Twelfth District slowed further on net during the survey period of mid-April through the end of May, although the reports again pointed to signs of stabilization or improvement in some sectors. Upward price pressures remained modest overall, and upward wage pressures were largely absent. Retail sales continued to be anemic, and demand softened further for service providers. Manufacturing activity generally remained at extremely low levels or eased further, although conditions continued to improve for makers of information technology products. Demand held largely steady for agricultural producers and remained somewhat weak for providers of natural resources. Home sales continued to firm in many areas, but construction activity stayed stuck at low levels, and demand for commercial real estate continued to deteriorate. Loan demand weakened further on net and credit availability remained tight.

Wages and Prices. Upward price pressures were very limited during the survey period. Commodity prices in general remained largely stable, except for oil prices, which increased. Final prices for a wide variety of retail items continued to be held down by heavy discounting, and the prices of selected services fell further, most notably for professional services such as accounting and business consulting. Gasoline prices rose modestly but remained well below last year’s highs.

Upward wage pressures were largely nonexistent. Contacts in most sectors continued to report that they have reduced labor costs by freezing or cutting wages for many worker groups, reducing or eliminating bonus payments, and in some cases reducing their contributions to employee benefit plans. Contacts reported limited recruiting activity and ample worker availability, which put downward pressure on wage offers.

Retail Trade and Services. Retail sales remained feeble on net, but the reports suggested that they did not deteriorate noticeably compared with the preceding survey period. Consumers continued to favor inexpensive necessities over luxury items and discretionary purchases, resulting in sales gains for large discount retailers in some areas. Department stores and specialized retailers continued to see very weak demand, with little change in sales reported relative to the previous survey period. Sales expanded further for grocers but remained anemic for retailers of furniture, appliances, and electronic items. New automobile sales, especially for domestic makes, remained exceptionally weak, while sales of used vehicles reportedly returned to “normal” levels in some areas. Unit sales of gasoline were running slightly below their levels from 12 months earlier.

Demand for services continued to ease on net since the last survey period. Providers of health-care services saw further demand declines, as reflected in a drop in patient volumes. Demand continued to fall for providers of professional services such as accounting, business consulting, and legal services. By contrast, providers of real estate services such as title insurance reported substantial increases in activity, resulting from an increase in home refinancing as well as a sales pickup in some areas. Travel activity in the District fell further: in California and Nevada, pronounced ongoing declines in hotel occupancy rates were reported, especially in the luxury segment of the market, and in Hawaii, visitor counts and spending remained down by double-digit amounts from 12 months earlier.

Manufacturing. District manufacturing activity remained at very low levels overall during the survey period of mid-April through the end of May. Activity for producers of wood products remained “depressed,” with sales prices that were described as too low to cover costs for many producers. Contacts in the metal fabrication industry continued to report extremely weak demand and levels of capacity utilization hovering around 25 percent. Production activity has started to ease for aerospace manufacturers, with significant declines in new orders and growing cancellations and delivery deferrals for existing orders pointing to further declines going forward. By contrast, conditions improved further for manufacturers of semiconductors and other information technology products, as new orders and sales increased modestly, capacity utilization rose, and inventories were brought into balance. Food manufacturers saw continued growth in sales with high levels of capacity utilization.

Agriculture and Resource-related Industries. Demand remained largely stable for agricultural producers and somewhat weak for providers of natural resources. Sales continued at a solid pace for most types of agricultural output, including livestock products and various types of produce, and input costs reportedly stayed at moderate levels, notably for fuel, fertilizer, and capital equipment. Extraction activity and capital spending by oil extractors were held down by weak global demand.

Real Estate and Construction. Conditions in District housing markets remained very weak but showed some signs of improvement, while demand for commercial real estate slid lower. Elevated rates of home foreclosures, ongoing price declines, and low mortgage interest rates have combined to support a sustained pickup in the pace of home sales in many areas. However, the pace of home construction remained very slow. Demand for commercial space declined further, and with vacancy rates rising, tenants in some areas have requested and received concessions on lease rates for office and retail space. Construction activity and sales transactions for commercial real estate fell further, with contacts citing limited credit availability as one cause.

Financial Institutions. District banking contacts reported that overall loan activity weakened further and credit conditions remained tight during the survey period. Businesses continued to cut back on their planned capital investments, causing demand for commercial and industrial loans to fall further. Similarly, consumer loan volumes were reported to be down considerably in some areas. Contacts attributed declines in business and consumer loan volumes primarily to the limited number of qualified applicants, but they also noted that lending standards remained relatively stringent.