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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

October 2009

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

OCTOBER 2009

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SUMMARY¹

Reports from the 12 Federal Reserve Districts indicated either stabilization or modest improvements in many sectors since the last report, albeit often from depressed levels. Leading the more positive sector reports among Districts were residential real estate and manufacturing, both of which continued a pattern of improvement that emerged over the summer. Reports on consumer spending and nonfinancial services were mixed. Commercial real estate was reported to be one of the weakest sectors, although reports of weakness or moderate decline were frequently noted in other sectors.

Reports of gains in economic activity generally outnumber declines, but virtually every reference to improvement was qualified as either small or scattered. For example, Dallas cited slight improvements residential real estate and staffing firms, while New York noted gains only in a few sectors (predominantly manufacturing and retail). Retail and manufacturing conditions were mixed in Boston, but some signs of improvement were reported. New York, Philadelphia, Cleveland, and San Francisco cited small pickups in manufacturing activity. In the Kansas City District, an uptick was noted in technology firms, while services firms posted revenue gains in Richmond. However, conditions were referred to as stable or flat for business services and tourism firms in Minneapolis and agriculture in St. Louis and Kansas City.

The weakest sector was commercial real estate, with conditions described as either weak or deteriorating across all Districts. Banking also faltered in several Districts, with Kansas City and San Francisco noting continued erosion in credit quality (often with more expected in the future). One bright spot in the banking sector was lending to new homebuyers, in response to the first-time homebuyer tax credit. Finally, labor markets were typically characterized as weak or mixed, but with occasional pockets of improvement.

Districts generally reported little or no increase to either price or wage pressures, but references to downward pressures were occasionally noted. While upward price pressures were generally subdued in most Districts, materials prices increased in Cleveland (mainly for steel) and Kansas City. Manufactured goods prices were flat to up slightly in Boston. Boston reported that in some market segments “product competition and customer clout are leading to downward pressure on prices.” Minimal wage pressures were noted in Cleveland and Minneapolis.

¹ Prepared at the Federal Reserve Bank of Richmond and based on information collected before October 13, 2009. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Consumer Spending and Tourism

Consumer spending remained weak in most Districts since the last report, although some improvements were noted. Chicago reported a continued decrease but at a slower rate than in the previous reporting period, and retailers maintained low inventories. Richmond reported flat or declining sales; Dallas indicated sales were largely unchanged. However, Dallas reported unexpected weakness at value-based retailers. Sales were mixed, according to Boston, St. Louis, and Kansas City, with Kansas City citing strong sales of cold weather apparel and lower-priced goods. San Francisco remarked that sales were little changed, with the exception of an increase in furniture sales. Although New York observed weak sales in upstate New York, general merchandise retailers in the City were ahead of plan and same-store sales were roughly on par with a year earlier. Boston noted that large-scale retailers had cut inventory due to weak sales. Philadelphia saw a pickup in back-to-school shopping. Cleveland observed that consumers were very price-sensitive and inventories were lean; nonetheless, sales were flat or slightly improved.

The “cash-for-clunkers” program ended in August, leaving depleted inventories and slower sales in its wake. New vehicle sales declined in New York, Philadelphia, Cleveland, Richmond, Atlanta, Minneapolis, Kansas City, Dallas, and San Francisco. However, Chicago reported a pick-up in vehicle sales in early October. Low new-car inventories helped to move used cars in several Districts, although San Francisco commented that the demand for used cars also weakened. New York also reported that automobile dealers saw some improvement in credit conditions for consumers looking to purchase cars.

Looking to expectations for holiday sales, Chicago anticipated improved sales, while Philadelphia retailers expected consumers to limit spending. However, Third District merchants also noted that store traffic increased recently. Atlanta reported that two-thirds of contacts expected flat or declining sales over the next three months.

Tourist activity varied across Districts. Boston, New York, and Atlanta described business travel as extremely soft, whereas Richmond observed solid growth in group bookings. Occupancy rates held steady in New York, spurred by increased leisure visitors, while aggressive discounting boosted cruise-line occupancy rates in Atlanta. San Francisco reported a deep slide in hotel and resort visits in Southern California and Las Vegas, but noted a continued firming of occupancy rates in Hawaii. Richmond indicated overall bookings were much improved over last year, while Kansas City reported occupancy rates remained below year-ago-levels. Room rates continued to decline in several Districts, including New York and Atlanta. In contrast, Boston said that hotels were offering dramatic promotional deals and discounts on local attractions, which preserved posted room rates.

Nonfinancial Services

Nonfinancial services firms had mixed reports in recent weeks. Kansas City observed increased demand for high-tech services and Richmond noted generally increased revenues, particularly in telecommunications and healthcare services. Demand for healthcare services also picked up in the Boston District. Minneapolis observed that activity in nonfinancial services firms was mostly flat at low levels, although technology consultants reported an uptick and competition heated up among engineering firms. In contrast, San Francisco contacts indicated that demand for services in general fell, and elective medical procedures were being deferred. St. Louis noted that revenues declined at several large firms in business support services.

Transportation services activity generally declined, although Cleveland and Chicago reported some strengthening. Atlanta observed weak transportation demand overall, and firms in the San Francisco District indicated that trucking had declined. Import demand in the Dallas District fell, leading to a reduction in cargo volumes at intermodal firms. Activity in the transportation sector was flat, according to Kansas City. In contrast, the cash-for-clunkers program helped to clear dealership lots, which prompted dealers to restock their depleted inventories and drove up car shipments. Chicago reported that trucking shipments increased, although the level of activity remained low, and Cleveland's contacts cited an uptick in freight transport volume in recent weeks. Cleveland also noted that trucking companies planned substantial equipment purchases through the first quarter of 2010. Business travel by air declined since the last report, according to San Francisco, while airlines in the Dallas District reported stabilized demand—albeit at low levels.

Manufacturing

Most Districts reported that manufacturing activity was generally stronger since the last report. New York, Richmond, Minneapolis and Kansas City all noted a further pickup in production, while Philadelphia, Cleveland, Chicago and San Francisco mentioned slight-to-moderate increases. Growth rates varied by industry, however, and some Districts experienced little or no overall increase. Boston reported that manufacturing activity was mixed, but had stabilized or shown modest improvement in certain industries. Similarly, Dallas said overall demand in manufacturing was flat at weak levels albeit with pickups in the high-tech, food, and petrochemical industries. St. Louis indicated that manufacturing continued its net decline, and Atlanta noted moderate declines in orders and production. Some Districts (Boston, Richmond and Chicago) mentioned that year-over-year drops in new orders of housing-related products had abated. Cleveland, Richmond, and Chicago reported substantial increases in auto and parts production, which were attributed primarily to restocking dealers' and manufacturers' inventories. Accordingly, lean inventories and stronger demand from the auto sector led to an increase in steel production in the Cleveland and Chicago Districts.

Comments on the near-term outlook varied across Districts. Boston, Philadelphia, Cleveland, and Kansas City reported that their contacts expected only slight gains and modest economic growth during the next six months. Therefore, capital spending plans remained subdued, and centered mostly on new product development or cost reduction. Dallas indicated that planned projects and routine maintenance were being deferred to conserve capital. New York, however, reported that respondents were increasingly optimistic about the near-term outlook and expected to hire more workers and spend more on capital.

Real Estate and Construction.

Most Districts reported that housing market conditions improved in recent weeks, primarily from a pickup in sales of low- to middle-priced houses. Contacts reported that sales were boosted by the government's tax credit for first-time homebuyers. Resale activity also edged up in parts of the New York District, although prices continued to be depressed due to a substantial volume of foreclosures and short sales. New and existing home sales remained flat in the Philadelphia District, and home sales continued to decline throughout the St. Louis District. Sales of higher-priced homes were very slow, according to Philadelphia, Cleveland, and Kansas City. Moreover, real estate agents in the Boston and Cleveland Districts were uncertain about the future of home sales once the tax credit expires. Availability of financing continued to be a concern for potential buyers in the Cleveland and Chicago Districts.

Residential construction activity remained weak in most Districts. Atlanta reported that construction remained very low, and Cleveland expected new home construction to proceed at a slow pace. Chicago indicated that construction on existing developments edged up, but St. Louis reported that construction activity declined. Kansas City reported that housing starts stabilized, although levels remained well below a year ago and were not expected to improve over the next three months. Philadelphia noted that builders continued to offer increased incentives to boost sales.

Commercial real estate continued to weaken across the 12 Districts, although even this sector had scattered bright spots. Each District indicated that demand for private commercial real estate was weak, with New York, Philadelphia, Cleveland, Atlanta, Chicago, St. Louis, Kansas City, and San Francisco all characterizing activity as declining further since the last report. An inability to obtain credit was often cited as a problem for businesses that wanted to purchase or build space. High vacancy rates were noted as a key concern especially for landlords who were not offering concessions. And, while industrial real estate in the Richmond District was generally weak, renewed interest by retailers to revisit postponed expansion plans was also noted. Finally, public nonresidential construction activity funded by federal stimulus projects was a source of strength in the Cleveland, Chicago, Minneapolis, and Dallas Districts, but gains were often offset by state and local government cutbacks.

Banking and Financial Services

Many Districts continued to report weak or declining loan demand, and many noted further erosion of credit quality. For example, demand was reported as stable or declining by New York, St. Louis, and Kansas City. Cleveland noted that commercial and industrial lending was soft and consumer lending was flat or reduced. In the Richmond District, modest signs of improvement in consumer loans were cited from banks in areas typically supported by the health care and education industries. Philadelphia also reported a small gain in consumer lending. San Francisco said that loan demand was “largely stable or perhaps rose slightly.” A major exception to the general pattern of weak or declining lending activity was in residential real estate. Most Districts cited the federal government’s first-time homebuyer program as supporting residential lending activity. However, Dallas reported that residential mortgage demand was disappointing, and St. Louis mentioned a moderate decline in real estate lending.

Credit quality continued to be a problem, and rising delinquencies were often noted. For example, credit quality was described as stable or declining in the Philadelphia, Cleveland, and Kansas City Districts. Half of the contacts for Kansas City expected loan quality to continue to erode over the next six months. Cleveland stated that the quality of loan applicants had deteriorated somewhat, mostly on the business side. Delinquencies were also widely reported to be up; New York particularly noted rising delinquency rates among both consumer and commercial mortgage loans.

Employment, Wages, and Prices.

Labor market conditions were generally reported as weak or mixed across Districts, but a few encouraging signs were noted. Employment activity was soft in the Kansas City District, and hiring remained limited in the Boston District. While a slowdown in layoffs was reported by Atlanta, no hiring was generally expected. Reports from Cleveland were mixed, but indicated declining employment in commercial construction and coal mining. Employment levels held steady in the Dallas District, with scattered reports of layoffs. However, staffing firms there noted improvement in contract and temporary employment. Minneapolis reported a weak labor market, but some signs of improvement were noted among auto-related industries. A major New York employment agency specializing in office workers reported renewed softening in recent weeks, with only scattered hiring at financial institutions and virtually no hiring in the legal and publishing industries. Richmond noted reports from temporary employment agencies were evenly mixed between reports of strengthening and weakening, but with increased optimism for the near term expressed since the last report.

Wage and price pressures were generally described as subdued across most Districts. Wages were flat in the San Francisco District, but increased moderately in the Minneapolis District. In the Boston District, business services firms (mainly advertising and consulting) reported modest salary increases, but

a decline in bonuses left total compensation slightly reduced. Wage pressures were characterized as “not significant” in the Chicago District and “contained” in the Cleveland District.

Prices followed a similar pattern to wages, with reports of little significant pressure on either input or output prices, although moderate increases were observed for materials prices. For example, prices movements were characterized as generally subdued or little changed in the Philadelphia, Atlanta, and Minneapolis Districts. Cleveland noted stable construction materials prices, but added that the cost of steel had experienced an uptick. Materials prices in general were reported to be up in the Kansas City District. Boston said that selling prices of manufacturing goods were flat to slightly up, but noted that product competition and consumer clout was leading to downward pressures in some market segments. Retail price inflation slowed slightly in the Richmond District, while retail prices were stable in the Philadelphia District and edged down in the Chicago, Kansas City, and San Francisco Districts.

Agriculture and Natural Resources.

Assessments of agricultural activity were mixed. Reports from Richmond and Minneapolis indicated that favorable growing conditions allowed farmers to make steady progress in harvesting summer crops and planting winter crops. In some parts of the Minneapolis District, however, a persistent drought delayed harvesting. In contrast, Atlanta, Chicago, St. Louis, and Dallas Districts all noted unusually high amounts of rainfall. In the Atlanta District, floods damaged some of North Georgia’s nurseries, vegetable farms, and commercial vineyards, but benefited Florida citrus growers. Similarly, widespread rains brought much-needed relief to drought-stricken parts of the Dallas District, allowing many ranchers to scale back costly supplemental feeding—but not in time to prevent severe losses to livestock and crops. Chicago and St. Louis mentioned that wet weather had slowed crop maturity and harvesting, while Chicago reported lower than expected yields. Kansas City indicated that, despite some delayed harvests, farmers expected above-average yields.

Activity in the energy industry remained weak. Atlanta, Kansas City, Dallas, and San Francisco reported increases in oil and gas inventories as demand continued to weaken. Atlanta indicated that refining margins continued to deteriorate, which led to delays in new projects. Cleveland noted that sharply lower contract prices for coal prompted coal miners to continue their deep cutbacks in production and to keep their capital spending on hold. Kansas City mentioned that overall drilling activity improved slightly, but that rig counts were still at historically low levels. Dallas remarked that rig counts rose in September and early October, spurred by oil drilling. However, Dallas also indicated that, despite the increase, excess capacity in the industry had resulted in job losses and weak domestic pricing. Minneapolis reported that activity in the energy and mining sectors increased slightly and noted that oil and gas exploration inched up in late September.

FIRST DISTRICT – BOSTON

Business activity remains slow in the First District, notwithstanding some signs of improvement. Results for retailers, manufacturers, and advertising and consulting firms are mixed, but many contacts cite a slower pace of decline, stabilization, or some pickup in activity. Residential real estate markets continue to show positive signs, while commercial real estate remains in the doldrums. Business contacts indicate that selling prices are level or have moved only slightly. Wage increases are very modest or zero; large layoffs appear to have ended, but hiring remains very limited. A slow recovery is expected in 2010.

Retail and Tourism

Contacted retailers in the First District report mixed sales results for the early fall months, with year-over-year percentage changes in same-store sales ranging from negative to positive mid single-digits. Those contacts reporting softer sales express concern about the effect on demand of rising unemployment and consumer concerns about winter heating bills.

Respondents continue to manage inventory levels carefully; one contact observes that large-scale retailers seem to have cut inventory due to weak sales. Capital spending remains tightly controlled, although some retailers are increasing capital spending in order to take advantage of favorable real estate opportunities. Contacts note that headcounts are stable, although tight restrictions on hiring seem to have relaxed. Wages remain steady and selling prices are reportedly stable.

Tourism activity in Boston is weak, although the rate of decline has slowed. Business travel is especially soft, and one contact worries that decreased corporate travel and spending will become “the new norm.” International leisure travel has also fallen off, while domestic leisure travel is reported to be stronger. Hotels are offering dramatic promotional deals and discounts on local attractions; these draw customers and thereby boost revenue, and also preserve posted room rates.

Manufacturing and Related Services

Manufacturing and related services contacts headquartered in the First District report that the pace of business remains abnormally low but, in many cases, has stabilized or showed modest improvement in the third quarter relative to the first half of 2009. Makers of housing-related products indicate that year-over-year rates of decline in sales and orders are abating somewhat. An equipment firm selling to the semiconductor industry says revenues remain far lower than a year ago but quarterly growth was stronger than previously expected. Health-related manufacturing activity continues to grow, boosted in part by higher demand for flu vaccines. However, makers of products related to commercial construction cite sharp drop-offs in business. Contacts in a range of industries note that sales to Europe are exceptionally weak.

Manufacturers indicate that costs have fluctuated for metals and have moved somewhat higher for petrochemicals. Some are concerned that the strengthening economy or expiration of long-term contracts

will lead to higher materials costs in 2010. Selling prices are mostly flat or up slightly, although product competition and customer clout are leading to downward pressures in some market segments.

Having cut domestic jobs earlier this year, most contacted manufacturers and related services providers plan to hold headcount relatively steady in coming months. Respondents remain cautious in adding to employment costs: some have ongoing hiring freezes, while others remain on the lookout for opportunities to reduce staffing. Many contacted firms expect to lift pay freezes or otherwise increase pay modestly in 2010, but are retaining flexibility in case the need to cut costs turns out to be greater than expected. Some respondents express concern about pension liabilities or other benefit costs. Capital spending plans remain subdued, and center mostly on new product development or cost reduction.

Most manufacturers and related services providers anticipate a slow recovery in sales in 2010. Although reports on the availability and cost of credit vary somewhat, the consensus appears to be that financial market conditions have moved in a positive direction.

Selected Business Services

First District advertising and consulting contacts report mixed results in the third quarter of 2009. The majority of contacted firms report demand in the third quarter either stabilized or increased by 4 percent to 25 percent year-over-year and by 3 percent to 15 percent quarter-over-quarter. By contrast, several contacts cite slower-than-anticipated demand in the third quarter. Demand from private equity firms and businesses related to real estate continues to be extremely weak. Conversely, the healthcare sector is strong and has increased demand for services as the health care reform debate takes place.

Costs reportedly held steady or declined in the third quarter. Several companies continue to cite substantial price pressure and are either increasing prices less than planned or offering discounts up to 15 percent. Some will raise prices in 2010. In most firms, wages and salaries increased modestly—by about 3 percent—in 2009. However, steep reductions in bonuses drove overall compensation down. Compensation is expected to grow marginally in 2010. Following layoffs in the first half of the year, some respondents began some hiring in the third quarter. Most will hire in 2010 in order to hold headcounts steady or to increase workforce by 3 percent to 10 percent.

Although all contacted advertising and consulting firms expect business to improve in the fourth quarter, the outlook for next year is mixed. Demand growth is generally projected at 3 percent to 15 percent in 2010, but one firm forecasts business to be down 15 percent next year. Major risks to the outlook are further increases in unemployment rates and uncertainty stemming from healthcare reform.

Commercial Real Estate

Commercial real estate contacts remain decidedly downbeat. Rents for Boston office properties are continuing to fall and are down sharply—by an estimated 23 percent for class A downtown space—from a year ago. Leasing velocity remains slow, but increased modestly from the summer as tenants

sought to upgrade space at bargain prices. Tenants are demanding significant concessions—including space improvements and one- to two-year leasing commitments—along with low rental rates. In Hartford, leasing volume and sales volume for office and industrial properties were described as practically non-existent. Hartford office rents have fallen modestly since a year ago, and margins are currently so narrow that owners are expected to face difficulty in marking them down further. In Providence, leasing volume has seen a seasonal uptick since Labor Day, but the activity is “not robust.” Suburban office rents in Rhode Island are down roughly 20 percent from a year ago and downtown Providence office rents are down 10 percent or slightly more, with a looming glut of class B office space downtown, based on pending relocations. As in Hartford, there is little room for Providence’s rents to fall further, given costs. An uptick in office-building foreclosures was reported for both Providence and greater Boston, and foreclosure activity is expected to remain significant in coming months.

A few pieces of good news emerged. A couple of noteworthy office building sales have taken place in Boston in recent weeks, facilitating price discovery and possibly signaling renewed investor confidence. However, property values for class A office space in Boston are estimated to have fallen 40 percent from their peak values. Similarly, industrial properties are selling in Rhode Island, but at discounts of up to 50 percent (for large-scale properties) from peak prices. Financing continues to flow throughout the region for low and mid-priced deals (under \$10 million) at favorable interest rates.

Vacancy rates are expected to rise further as office employment continues to shrink; all contacts place a turnaround in commercial property fundamentals at least 9 months into the future. A Boston contact continues to worry about default risks over a 1- to-3-year horizon in light of the large share of Boston properties purchased between 2004 and 2007 that are currently “under water.”

Residential Real Estate

Following increases in June and July, residential real estate markets in New England saw moderate year-over-year increases in home sales in August as well. Much of the recent activity is said to be related to the first-time homebuyer tax credit. Its scheduled December 1 expiration date has led to an increase in pending sales in the Boston area. Contacts are very uncertain about what will happen to home sales once the tax credit expires; while groups in the real estate industry are pushing to extend the tax credit to next year and to expand its impact, the legislative prognosis is unclear.

Although home sales rose in August, home prices continued to decline across New England. Contacts report that median home prices fell between 3 percent and 14 percent year-over-year in August. One contact notes that increased activity related to the first-time homebuyer tax credit is naturally concentrated on entry-level homes; this alters the mix of homes sold and hence reduces the median price.

The inventory of homes for sale continues to decline in Massachusetts and New Hampshire. Contacts report that some potential sellers are still waiting for prices to begin increasing again before

listing their homes. Real estate contacts fear that low inventory will hurt sales if potential buyers are unable to find a suitable home.

SECOND DISTRICT--NEW YORK

The Second District's economy has shown scattered signs of a pickup since the last report. The labor market has given mixed signals, with some signs of strengthening in manufacturing, but ongoing weakness in hiring in other sectors. Manufacturing sector contacts report increased activity and remain optimistic about the near-term outlook. Auto dealers indicate that sales declined sharply in September, as expected, reflecting the end of the cash-for-clunkers program, as well as depleted inventories. However, general merchandise retailers report that sales improved in September and were ahead of plan and roughly on par with a year earlier. Consumer confidence, though still low, has moved up moderately since the last report. Tourism activity in New York City has been sluggish but relatively steady, with leisure visitors partly offsetting an ongoing pronounced slump in business travel.

Commercial real estate markets—in both the office and industrial categories—have been steady to moderately weaker since the last report. Residential real estate markets have been mixed since the last report, but generally weaker, especially at the high end of the market. Home sales activity reportedly rebounded a bit from depressed second quarter levels, but prices, as well as rents, have continued to decline. Finally, bankers report rising delinquency rates—particularly on consumer and commercial mortgage loans—along with ongoing tightening in credit standards; loan demand continued to decline, except for residential mortgages, where bankers report some pickup in demand.

Consumer Spending

Retail sales picked up noticeably in September and were mostly above plan; on a same-store basis, sales were generally little changed from a year earlier, though year-to-year declines were still seen in upstate New York. Retail sales in New York City, which had until recently been lagging other areas, have improved considerably since the last report—particularly for one higher-end department store chain. In upstate New York, however, high-end retailers report relatively weak

sales. Sales of new automobiles remained strong through August but weakened substantially in September. The recent sharp weakening was attributed to the end of the cash-for-clunkers program, as well as depleted inventories of new vehicles, and was not unexpected. Auto dealers also note that credit conditions for consumers, though still problematic, have improved somewhat of late.

Consumer confidence measures, while still low, have risen moderately since the last report. Among residents of the Middle Atlantic states (NY, NJ, PA), confidence rose to its highest level in a year and a half in September, according to the Conference Board. Siena College reports that consumer confidence among New York State residents was little changed in September, after jumping to a more than one-year high in August. Tourism activity in New York City has remained sluggish but steady since the last report, with an ongoing pronounced slump in business travel partly offset by leisure visitors. Manhattan hotels report that occupancy rates were steady in September, while room rates continued to run 25-30 percent down from comparable 2008 levels. Revenues were down roughly 30 percent from a year earlier. Bookings for October suggest that occupancy rates may be somewhat higher than a year earlier, though advance bookings for November appear relatively soft at this point. Broadway theaters report that attendance picked up somewhat in September and early October but remained slightly lower than a year earlier; ticket prices remained roughly 15 percent above last year's levels, pushing total revenue 10 to 15 percent ahead of year-ago levels.

Construction and Real Estate

Commercial real estate markets in the District were steady to softer since the last report. Manhattan's office vacancy rate continued to climb in September and for the third quarter overall, while asking rents continued to drop and were again down about 20 percent from a year earlier (not counting increased concessions by landlords). In the rest of the New York City metropolitan region, however, office markets have slackened only marginally. Industrial vacancy rates are up slightly in

northern New Jersey, Long Island and Westchester, while asking rents have fallen moderately in all these areas except Westchester, where they have held steady.

Housing markets remain sluggish across the District, though sales activity has picked up in certain areas. A New Jersey contact indicates that resale activity is inching upward, though prices continue to be depressed due to a substantial volume of foreclosures and short sales. New home sales remain flat in northern New Jersey, though the inventory is gradually diminishing, due to a lack of new development. In western New York State, home sales activity reportedly slowed in August and remained relatively sluggish in September, while prices generally remained steady; contacts express concern that the upcoming expiration of the \$8,000 tax credit for first-time homebuyers will adversely affect sales and prices. Manhattan's apartment sales market remained weak in the third quarter. Sales activity rebounded moderately from the prior quarter but remained lower than a year earlier; prices continued to decline and were estimated to be down 18 percent from a year earlier on a per-square-foot basis. The inventory of listings declined modestly, but the average number of days on the market continued to climb. Manhattan's rental market slackened further in September, with average asking rents continuing to run about 10 percent below a year earlier; in addition, landlords are reported to be offering increasingly generous concessions—waiving fees and offering one or more months of free rent. Vacancy rates are reported to have edged down seasonally, but this is expected to reverse in the upcoming (typically slower) winter season.

Other Business Activity

A major NYC employment agency, specializing in office jobs, reports renewed softening in recent weeks: there is said to be only scattered hiring at financial institutions, and activity has virtually ground to a halt in the legal and publishing industries. A finance-sector contact indicates that employment continues to decline, though at a more subdued pace than in the first half of the year. However, compensation—especially cash compensation—has reportedly fallen sharply, and is expected to fall further during the remainder of the year and into 2010, most notably for the top

earners in the industry. At non-manufacturing firms more generally, most contacts continue to report steady or declining staffing levels, and respondents remain widely negative about the general business climate; however, a growing proportion anticipate adding workers over the next three to six months.

Manufacturing firms in the District report a further pickup in business activity since the last report, as well as some upturn in employment at their firms for the first time in more than a year. Respondents are also increasingly optimistic about the near-term outlook and expect to hire more workers and spend more on capital, on balance, in the months ahead. Both manufacturers and other firms report moderate increases in prices paid but little or no change in selling prices; looking to the months ahead, though, non-manufacturers anticipate modest increases in prices received.

Financial Developments

Bankers report decreased demand for all types of loans except residential mortgages, where they report an uptick in demand. Demand for residential mortgages is reported as higher by 38 percent of bankers, compared with only 16 percent reporting decreased demand. For all loan categories, respondents indicated a tightening of credit standards, ranging from 24 percent in the residential mortgage category to 30 percent for commercial mortgages; virtually no banker reports easing in credit standards. Respondents report widespread decreases in average deposit rates. Finally, bankers note increased delinquency rates for all loan categories, most notably in the consumer loan category.

THIRD DISTRICT – PHILADELPHIA

Economic conditions in the Third District have shown little change in recent weeks. Manufacturers, on balance, reported a small increase in shipments and a steady rate of new orders. Retailers indicated that sales picked up for the back-to-school shopping period, although there was little improvement compared with a year ago. Motor vehicle dealers indicated that sales declined from August to September as the federal “cash for clunkers” program terminated. Third District banks reported flat loan volume, overall, and further declines in credit quality. Residential real estate agents generally noted steady sales of existing homes. Nonresidential real estate leasing and construction activity declined. Business firms in the region reported mostly level input costs and output prices in September.

The outlook in the Third District business community remained subdued in September. Manufacturers forecast a rise in shipments and orders during the next six months, on balance, although most of those expecting gains believe that they will be slight. Retailers are generally cautious. Although some retailers see signs of rising sales in the fourth quarter, most believe consumers will continue to limit spending. Auto dealers expect sales to remain slow through the rest of the year. Bankers anticipate demand for credit to remain soft while business and consumer confidence continues to be fragile. Residential real estate contacts believe housing demand will continue to stabilize, but they do not expect significant improvement until some time next year. Contacts in nonresidential real estate expect leasing and construction to remain weak into 2010.

Manufacturing

Third District manufacturers indicated that shipments rose slightly, while the rate of new orders was steady, on balance, from August to September. Growing demand for their products was reported by makers of industrial materials and equipment, but makers of apparel, furniture, and transportation equipment reported declining demand for their products. Among firms experiencing recent gains, the increase in demand has generally been slight. Several firms said that the recent step-up in activity has been slow and uneven. One firm described its sales as alternating between being “good for a few weeks, then over a cliff for a week or two.”

Third District manufacturers expect further improvement in business conditions, on balance. Among the firms polled in September, slightly more than half expect new orders and

shipments to increase during the next six months; less than one-tenth expect decreases. Although the balance of opinion among area manufacturers remains positive, most forecast only slight gains. There is a general view among surveyed firms that their customers will be slow to restock inventories and purchase capital equipment in the near term. This view is consistent with area manufacturers' own plans for capital spending, which call for only steady expenditures, on balance, during the next six months.

Retail

Third District retailers reported mostly steady sales during September, and for most of those surveyed sales remained below the year-ago level. Some apparel specialty stores reported that sales picked up better than expected for the fall shopping period, but, on balance, area retailers indicated that the sales rate has not fundamentally improved compared with the summer months. Most Third District retailers continue to have cautious views of the near term, and most expect consumers to limit spending during the year-end holiday shopping period. However, a few retailers noted recent increases in store traffic, which could indicate — as one store executive said — “consumers are getting ready to buy, and the fourth quarter could be up from last year.”

Third District auto dealers reported a drop in sales from August to September as the federal “cash for clunkers” program ended. The August sales boost helped dealers reduce inventories, but dealers think that the program also pulled sales into August that might have otherwise occurred in September or later. Consequently, they expect sales to be slow through the rest of the year.

Finance

Total outstanding loan volume at Third District banks has been virtually level in recent weeks, according to bankers contacted for this report. There has been a small gain in consumer lending, but residential real estate lending has been flat and business lending has declined. Most of the bankers contacted for this report said that demand for business loans has been weak. One banker noted that “despite active calling by our lending officers, there is not much interest on the borrowers' side.” Most of the banks contacted for this report said that credit quality continued to deteriorate for all categories of lending. Bankers generally expect demand for credit to remain

weak due to businesses' and consumers' lack of confidence that economic conditions will improve significantly in the near future. Sources reported that lending by nondepository financial companies remains limited, especially for real estate and construction.

Real Estate and Construction

Sales of new and existing homes were flat in most parts of the Third District as summer came to an end, according to local real estate agents. They generally indicated that sales were somewhat stronger for lower-price homes, which some attribute to the tax credit for first-time home buyers. With respect to higher-price homes, an agent reported that “the upper tier is still very, very slow.” Although some builders reported increased traffic, sales gains have been — as one builder expressed it — “minimal.” Real estate agents in most parts of the District reported that selling prices have been unchanged or have fallen somewhat in recent months. Some builders have offered increased incentives or low-cost financing to buyers. With the end of the busy season for home sales, real estate agents and builders are looking to next year for signs of greater demand. However, they expect improvement to be slow.

Nonresidential real estate firms indicated that leasing and purchase activity declined during the past few months. Vacancy rates continued to rise for apartments and office, industrial, and retail buildings. Contacts reported that tenant downsizings and business terminations were resulting in the return of space to the market. There has also been a substantial increase in sublease space coming on the market. Rents have declined, especially for older buildings. Contacts expect nonresidential real estate markets to remain soft for some time. One contact said, “markets will struggle through the remainder of this year, and they will still face challenges in 2010.”

Prices

Reports on input costs and output prices have been mixed since the last Beige Book. Manufacturing firms noted increases for the commodities they use but reported decreases in the prices of the products they make, with the exception of metals, for which prices have been raised. Retailers continued to indicate that their cost of goods has been about steady, and they have generally kept their selling prices steady. Some builders reported stepped-up incentives to promote new home sales.

FOURTH DISTRICT – CLEVELAND

The economy in the Fourth District has shown a few signs of improvement since our last report, though overall activity is sluggish and the recovery remains fragile. Reports from factories indicated that production was steady to up slightly, with increases being attributed to new orders and seasonal adjustments. New home sales showed a modest improvement, while commercial and industrial construction continued at a slow pace. Credit availability remains a major issue for residential and commercial contractors. Sales by District retailers were flat to up slightly. New motor vehicle sales fell since the “cash-for-clunkers” program ended, whereas purchases of used vehicles improved. Coal production declined, with little change noted in oil and gas output. Reports indicated an uptick in freight transport volume. Demand for new commercial and industrial loans was soft, while consumer lending was flat to down. Core deposits continued to grow substantially at most banks.

The only industries reporting notable employment reductions were commercial construction and coal mining. Staffing firm representatives had mixed responses when asked about the number of new job openings. However, a majority said that they received more requests for temps rather than permanent employees. Given the weak labor market, wage pressures are contained. We heard several reports of an uptick in steel prices. Otherwise, raw materials and product pricing were relatively stable. Business fixed investment remains at reduced levels, with little change expected in the upcoming months.

Manufacturing. Most reports from District factories showed that production was steady to up slightly during the past six weeks, with increases being attributed to new orders and seasonal adjustments. On a year-over-year basis, factory output remains depressed. A majority of our contacts expect output to remain at current levels or show a gradual improvement going into 2010. Shipments by steel producers and service centers held steady or increased slightly, with reports indicating a small uptick in demand from a wide range of industries. Our steel contacts expect shipments will track seasonal trends, but at reduced levels, through the end of the year. District auto production rose substantially during August on a month-over-month basis. Increases can be attributed to beginning production of 2010 models, restocking dealer inventories, and the aftermath of the GM and Chrysler restructurings. Production of both domestic and foreign nameplate vehicles in the District remained well below year-ago levels.

A majority of our contacts said that they are in the process of further reducing inventories or are not replenishing existing stocks. Capacity utilization remains below historic norms, with little change noted over the past six weeks. Capital expenditures continue to be substantially

below pre-recession levels, and only modest adjustments are expected in the upcoming months. Reports show that other than an uptick in the cost of steel (especially stainless), raw materials and product pricing was relatively stable. On net, there was little change in staffing levels, and wage pressures are contained.

Real Estate. A majority of home builders we contacted said that sales improved slightly during the past six weeks, and are comparable on a year-over-year basis. Entry-level sales are doing particularly well, while the high-end market is sluggish. Looking forward, builders see new home construction proceeding at a slow pace. They are also very concerned about credit availability and the withdrawal of the first-time home buyer tax credit. Many of our contacts reported that they are unable to obtain financing to build any spec homes. There has been little change in the pricing (list and discounting) of new homes during the past few months, while materials prices were stable. General contractors continue to operate with skeleton crews, and subcontractors are readily available at competitive rates.

Commercial and industrial construction continues to be sluggish, though activity in public works projects has picked up. All of our respondents said that business has fallen on a year-over-year basis. Inquiries are coming in at a much slower pace, while backlogs are down substantially for nearly all builders. Most contacts expect construction activity will be weak in the upcoming months, and it may be a year before a recovery begins. We continued to hear numerous accounts of difficulties in obtaining financing for private-sector projects. For the most part, construction materials prices were stable. A majority of our contacts reported reducing the size of their workforce during the past six weeks, while subcontractors are charging significantly lower rates.

Consumer Spending. District retailers reported that sales from mid-August through mid-September were flat or had improved slightly on a month-over-month basis, while remaining below year-ago levels. Reports show that consumers continue to focus on purchasing necessities rather than discretionary items and are very price sensitive. Retailers' expectations for fourth-quarter sales were decidedly mixed. Vendor and retail pricing has been relatively stable, though we heard two reports of some downward pressure on core food items. Retail inventories continued on the lean side. Reports from auto dealers indicated that new vehicle sales dropped since the cash-for-clunkers program ended, with half of our contacts characterizing sales decline as modest. In general, purchases of used vehicles have improved since cash-for-clunkers was withdrawn. Vehicle inventories remain low. Most dealers expect future sales to track seasonal trends, but at a lower level. All of our contacts commented that new vehicle

purchases are heavily dependent on incentives and promotions. Difficulty in obtaining credit remains a serious issue for consumers and dealers. On balance, there has been little change in staffing levels or labor costs at retailers and auto dealers.

Banking. New demand for commercial and industrial loans was soft during the past six weeks. However, several bankers reported a rise in refinancing existing debt that was turned away by other institutions. Some large, regional banks are seeing increased pay-downs and lower overall volumes. Interest rates and spreads were steady to increasing. On the consumer side, loan demand was characterized as flat to down, with part of the decline caused by the withdrawal of the cash-for-clunkers program or other bank promotions. Reports on residential mortgage applications were mixed, with some improvements credited to falling rates. Core deposits continued to grow substantially at most banks. About half of our contacts said that they have tightened lending standards even further, especially for loans tied to construction. Credit quality of loan applicants has deteriorated somewhat since our last report, more so on the business side. There continues to be a slight upward trend in delinquencies, especially for commercial loans and loans tied to real estate. For the most part, workforce sizes are stable and no wage pressures were reported.

Energy. Coal executives reported a continuing sharp decline in production on a year-over-year basis, with no turnaround expected in the upcoming months. One executive said that contract prices for coal have dropped 50 percent from a year-ago. Little change in oil and gas output was reported, while drilling activity was steady or slowly declining. Most reports showed that prices received for oil were little changed, while those for natural gas were up slightly. For the most part, the cost of production equipment and materials has stabilized. However, we heard two reports of a rise in fuel prices. Capital spending by coal producers remains on hold, while expenditures by oil and gas producers stayed on plan. Employment levels in the oil and gas industry were stable, while coal executives reported additional workforce reductions.

Transportation. Almost all freight transport contacts reported a slight improvement in shipping volume during the past six weeks, with several commenting that volume growth has been uneven and shipping rates remain competitive. Although no end market stands out, several contacts noted increases in auto-related shipments. Looking forward, a majority of our contacts expect slight incremental improvements in volume. Capital spending remains at low levels. Nonetheless, two trucking executives reported that they have committed to purchasing a substantial amount of replacement equipment during the last quarter of this year and the first quarter of 2010. On the labor front, most hiring is limited to replacements.

FIFTH DISTRICT–RICHMOND

Overview. Most sectors in the Fifth District reported either mixed or improving business conditions since our last assessment. Manufacturing continued to lead most other sectors, with solid increases in orders and shipments and even a small gain in employment. Services firms also strengthened, although employment tended to be flat. Finance and real estate (both residential and commercial) firms reported improvements over the last four-to-six weeks, but weaknesses were noted especially in industrial real estate. In contrast, the retail sector tended to be either flat or down in recent weeks.

Temporary employment was more evenly mixed between reports of strengthening and weakening, but with more optimism expressed than earlier. Reports of wage and price changes among sectors indicated little change, although manufacturing and retail price growth slowed slightly.

Retail. Retail contacts generally reported flat or declining sales in recent weeks, although a few reported an uptick in late September and early October. An executive at a sporting goods store said unemployment was keeping his sales flat, while department store executives in some locations reported that sales had dropped. In contrast, several store managers at chain department stores indicated that sales had strengthened. A Charlotte store manager reported strong sales of electronics, especially larger flat screen televisions, but he added that, “we’re not coming out of the downturn yet.” A contact at a large bookstore said sales were up, but the store was continuing to reduce hours in order to contain expenses. Dealers told us sales of cars and light trucks declined, though not markedly, since the cash-for-clunkers program ended. Merchants continued to cut jobs in recent weeks, but reductions were less widespread than cited in our last report. The rate of retail price increases slowed slightly, while the pace of wage increases edged up.

Services. Revenue growth at services firms strengthened since our last report. Most hospitals and other healthcare facilities had slightly higher consumer demand for services in recent weeks; however, flu outbreaks were not extensive and contacts said they have not had to enact emergency pandemic plans. Executives at telecommunications firms told us their revenues were up. Employment was generally flat, with the exception of some financial services and technical firms where employment increased. An architect in Baltimore also said hiring increased at his firm. Price and wage inflation at services-providing firms was relatively stable since our last report.

Manufacturing. District manufacturing activity continued to advance in September. Contacts reported solid increases in shipments and new orders, and indicated that employment had increased for the first time since December 2007. A contact at a tire plant reported that positive sales transferred into increased production after inventory projections were achieved. Moreover, a machinery parts manufacturer said that automotive demand was tremendous because original equipment manufacturers

were rebuilding their inventory. A door manufacturer observed that over the last several months precipitous year-over-year drops in new orders had abated, with new orders now only slightly lower than last year. He was concerned, however, that the firming of new orders would only be temporary due to the ending of the new homebuyers' tax credit. Contacts reported that both raw materials and finished goods prices increased at a slower pace than in our last report.

Port authorities in the District reported stable-to-moderate gains in both import and export activity, but expressed concern about their sustainability. One official saw "light at the end of the tunnel," with month-to-month changes flattening out. Auto imports picked up as auto companies replenished dealer stocks. Another official thought that modest gains over the last month might reverse once the early holiday importing was completed, especially if businesses kept a tight rein on inventory.

Finance. Lending demand around the Fifth District was mixed since our last report, although banks reported modest signs of improvement. Consumer loan demand picked up "modestly," according to several bankers from areas least affected by the economic downturn. However, most borrowers with excellent credit and an established relationship received loans. Some of the gains were attributed to the recent jump in new car sales, but increased borrowing for other consumer durables was also noted. Demand for C&I loans was about evenly split between reports of recent improvement and further weakening. Several banks reported that local businesses with relatively healthy balance sheets thought their markets had finally hit bottom and they were ready to start investing again. However, a number of banks reported sharp declines in loan demand in recent weeks, noting weakness in the energy, auto parts, and metals markets. Finally, mortgage lending in most areas of the District saw a pickup that was widely attributed to first-time buyers and bargain hunters, with both concentrated at the low end of the market. The middle and upper ends of the market remained weak, but one banker noted slight increases in sales to second- and third-time buyers.

Real Estate. Fifth District residential real estate agents generally reported stronger traffic and actual sales of houses priced in the low-to-middle range of their markets, citing first-time homebuyers and the government's tax credit program as the driving force. Several agents reported strong sales in September, based on not only gross sales revenue but also unit sales. One agent expected October to be equally as busy, based on the number of visitors at his open houses. Another agent reported that sales were "up a tad," and that the number of properties that went under contract increased in recent months. In contrast, Realtors in North Carolina reported slow housing markets, due partly to people taking their time to look and others being cautious because of their credit status. Indeed, one agent told us that, "pristine credit is practically required to get financing." Most Realtors reported that the low- to middle-priced houses were their best sellers, and the higher-end properties showed very slow sales in many areas.

While commercial real estate activity in the District remained depressed, most real estate agents reported signs of improvement over the last month at least in terms of expressing interest in long-term expansion. One agent noted an increase in foot traffic from retailers interested in developing new sites next year. Few were willing to commit yet, but an increasing number were revisiting earlier expansion plans that had been put on hold over the last year. Industrial real estate activity in most areas of the District was often described as “dead,” and new construction of industrial or office buildings was further deterred by difficulty obtaining financing. Small business startups in Northern Virginia were also having trouble getting financing, often due to an inability to meet higher down-payment requirements.

Tourism. Assessments of tourist activity varied in recent weeks, but were generally on the positive side. Contacts along the coast reported firmer bookings since our last report, facilitated by good weather and increased short-term stays. A contact from Myrtle Beach told us that occupancy rates had risen and were much improved over last year. He noted that, although the average length of stay had declined, more people were traveling to the destination. A contact on the Outer Banks of North Carolina indicated that bookings for the Columbus Day holiday weekend were somewhat stronger than a year ago, which she attributed to “visitors being a little more positive.” In contrast, other hoteliers on the coast described business as somewhat weaker compared with our last report. A manager at a mountain lodge in West Virginia reported a 10 percent increase in group bookings over last year, crediting its proximity to neighboring urban areas. Similarly, a manager at a mountain resort in Virginia characterized bookings for the Columbus Day holiday weekend as much stronger, due to warm weather.

Temporary Employment. Fifth District temporary employment agents gave generally mixed reports on demand for workers since our last report. One agent reported stronger demand for his workers, citing the economic recovery and a renewed confidence. In contrast, several contacts reported somewhat weaker demand for workers. However, these contacts expected stronger demand over the next few months because companies were beginning to see increases in activity again and, therefore, would need additional temporary support. Indeed, an agent in the Raleigh, N.C., area was very optimistic for stronger demand over the next several months due to an increase in manufacturing in preparation for the holiday season demand and a temporary increase in businesses hiring office workers.

Agriculture. While agricultural harvesting and field preparation were on schedule, farm income projections weakened somewhat since our last report. Recent weather conditions allowed Fifth District farmers to make steady progress in harvesting, with the corn harvest in full swing in North Carolina and winding down in South Carolina. The corn harvest in Virginia was nearing completion with yields described as good to excellent. In addition, the apple harvest was 80 percent complete in Maryland and 60 percent complete in West Virginia. Farmers in Virginia and South Carolina were harvesting early soybeans, which were in good-to-excellent condition. Results of our recent survey of agricultural credit

conditions indicated that farmland values were above both the previous quarter and year-ago levels, but income projections weakened as a result of continued lower commodity prices and weaker demand.

SIXTH DISTRICT – ATLANTA

Summary. On balance, information from Sixth District business contacts suggested that economic activity pulled back somewhat in September. Retail and tourism-related spending was below expectations according to most contacts, while automobile dealers reported that sales had dropped following the expiration of the “cash-for-clunkers” program. Reports from real estate contacts indicated that home sales continued to improve in most areas, although the pace of the improvement slowed somewhat in September. Commercial real estate conditions deteriorated further as vacancy rates rose, rents declined, and more planned commercial projects were delayed or cancelled. A small majority of manufacturer contacts noted a modest decline in production and orders in September. Most contacts in the banking sector reported that credit conditions remained tight. The pace of layoffs in the District continued to slow, but most contacts also indicated that they were not looking to hire in the near term. Overall, inflationary pressures remained subdued, with most contacts noting that input and output prices were flat to down slightly over the month.

Consumer Spending and Tourism. District retail contacts indicated that traffic and sales were somewhat below their modest expectations in September. Both sales and inventory levels remained below year-ago levels. Merchants were keeping inventories lean, managing them at “just in time” levels. The outlook remained mixed, with roughly two-thirds of retail contacts anticipating flat or declining sales over the next three months and one-third expecting an increase. Auto dealers across the District reported poor traffic and low sales of new vehicles in the wake of the cash-for-clunkers program. A contact in the auto repair industry noted a further decline in activity that they associated with the reduction in the stock of older vehicles because of the program. Used-car sales held relatively steady over the month.

Tourism-related spending in the District remained weak in September. Industry contacts reported that hotel reservations, particularly related to conventions, were down. Room rates continued to decline, as well, in most locations. Cruise-line occupancy rates remained solid. However, this was attributed to very deep discounting. Hospitality industry contacts expect subdued activity to persist over the next few months.

Real Estate and Construction. District homebuilders and Realtors both reported that the pace of home sales had softened slightly since the last report. Despite this, homebuilders noted an increase in traffic with several contacts reporting that the credit quality of potential

buyers had improved as well. Demand for low- to mid-priced homes remained relatively strong, supported by the first-time home buyer tax credit and increased interest by investors. However, most contacts continued to note downward pressure on home prices from foreclosures and short-sales. The majority of homebuilders and contractors observed construction remained very low. The sales outlook among both builders and Realtors over the next three months was less upbeat than reported in August.

Private-sector commercial real estate activity weakened further in September. Vacancy rates continued to rise across all segments, and contacts continued to cite downward pressure on rents. Developers reported fewer backlogs, and more projects were delayed or cancelled. The outlook among contractors remained unchanged since last reported, with most anticipating activity to continue to decline into 2010. However, contractors in some parts of the District noted that federal stimulus monies were starting to help spur some public-sector activity.

Manufacturing and Transportation. A small majority of manufacturing contacts noted moderate declines in orders and production during September. In addition, four-fifths of our contacts reported similar or declining levels of finished inventories relative to the previous month, and most reported that they were operating well below capacity. The outlook for production remained modestly positive, with forty percent of contacts expecting to increase output and another forty percent anticipating that current levels of activity would remain the same over the next three to six months.

Overall, transportation activity remained weak, with rail shipments of automobiles being one of the few areas showing improvement. Weak demand and lower prices were noted as adversely impacting revenues for several regional trucking companies.

Banking and Finance. District banking reports cited that lending conditions remained tight. Real estate contacts mentioned that homebuyers had difficulty securing financing for non-conforming mortgages. Some retailers indicated that obtaining inventory financing was harder. Commercial contractors noted that tight lending conditions had restrained commercial development.

Employment and Prices. District businesses noted that the pace of layoffs slowed in September, but there continued to be concerns over hiring as few contacts reported any plans to increase payrolls. Many employers indicated that they were holding on to the most skilled workers, but have reduced overall hours. They feel that a sustained increase in orders and sales

is a prerequisite to adding to payrolls. There were several reports of firms that were substituting some of their payroll employees with contractors.

Construction and manufacturing firms reported that several raw material prices continued to moderate. Real estate contacts noted some further downward pressure on rents. Once again, most retailers remarked that retail prices remained stable relative to year-earlier levels.

Natural Resources and Agriculture. District contacts indicated that with petroleum and refined product inventories well above average levels, refining margins continued to deteriorate in September. As a result, refiners have cut back on processing, delayed new projects, and have shut down for lengthy maintenance.

Unusually high rainfall amounts were reported in most parts of the District. Floods damaged some of North Georgia's nurseries, vegetable farms, and commercial vineyards. However, Florida citrus growers benefited from recent rainfall. Crop conditions were described as generally favorable for cotton, soybeans, and peanuts in Alabama, Georgia, and Mississippi.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District improved marginally in September and October. Most contacts reported that the decline in economic activity had ended, and many remained cautiously optimistic for a recovery over the remainder of 2009. Business spending and consumer spending excluding autos decreased at a slower rate, and business and consumer expectations improved. Manufacturing activity showed some further signs of firming. Residential real estate conditions continued to improve, while commercial real estate conditions worsened. Credit conditions, while still tight, also further improved. General and agricultural price pressures were mixed, while wage pressures were minimal.

Consumer spending. Consumer spending decreased from the previous reporting period. Auto sales were considerably lower in September after conclusion of the cash-for-clunkers program, but contacts indicated a pickup in activity in early October. Used vehicle sales were steadier through September helping to offset some of the decline in new vehicle purchases. Auto dealers reported that vehicle inventories remained low, but that they were comfortable with the level of stocks. Retail sales excluding autos decreased at a slower rate than during the previous reporting period. Consumers continued to spend mostly on necessities, but the decline in spending on luxury goods slowed. Recent trends of higher personal saving rates and trading down to lower-priced brands were expected to continue to hold back sales, but their impact was seen as easing. Retailers reported maintaining low inventories; however, contacts also indicated that expectations for sales during the holiday season had improved. With customers still price sensitive, retailers also noted efforts to improve customer service and the shopping experience in order to attract new business.

Business spending. The decline in business spending slowed in September and early October, and the outlook for future spending improved. Some inventory rebuilding took place in the manufacturing sector, and contacts generally expected this to continue through 2009. Trucking shipments increased, although the level of activity remained low. In a sign of rising business confidence, several contacts also noted an increase in merger and acquisition activity. Tentative signs of increased interest in structures investment were reported, and some projects that had been put on hold earlier in the year were being re-priced with the possibility of moving forward later this fall. Higher credit standards remained an issue, however. For example, a

contact reported facing much higher equity requirements and much less favorable terms than in the past. In addition, a contact reported that equipment investment by his firm was likely to remain on hold despite attractive prices until their labor force adjustments had ended. Labor market conditions remained weak with hiring limited outside of healthcare, education, and information technology. However, the rate of job loss continued to slow as did reductions in hours. Furthermore, a large staffing firm indicated that billable hours had increased in recent weeks, particularly in the manufacturing sector.

Construction/real estate. Construction activity in the District increased slightly in September and early October. Residential construction inched up, but a contact noted that most of the building was on existing developments. Credit remained tight for residential developers. Residential real estate conditions also improved with home sales increasing and housing inventory coming down. Contacts noted higher affordability and the nearing end of the first-time home buyer tax credit as drivers. However, the availability of financing continued to be a concern for potential home buyers. Public nonresidential construction was strong with road building and repair accounting for most of the activity. In contrast, private nonresidential construction declined, reflecting both weak demand and restrictive credit conditions. Commercial construction was particularly weak. Commercial real estate conditions deteriorated again, as prices fell further and vacancy rates increased. Contacts reported that lower absorption of retail and office construction would likely cause vacancy rates to continue to rise. Downward pressure on commercial rents also intensified and subleasing activity increased with more tenants seeking to renegotiate their leases.

Manufacturing. Manufacturing activity in the District was slightly improved in September and early October. Lean inventories and stronger demand from the auto sector led to an increase in demand for steel. A contact in the steel industry reported that previously idle capacity would be brought back on as a result, although it would take time to do so. Other metals-related manufacturers also reported small gains. Automakers expected demand to slowly improve over the rest of the year and maintained plans to increase production. The surge in sales in July and August allowed them to favorably alter their product mix and manage inventories. Automotive suppliers also benefitted from the increase in auto production; however, several contacts noted that orders past the fourth quarter were shaping up to be weaker, while others expected demand to increase slowly over the next six months. The latter pointed to strong

demand from Asia, Mexico, and Europe as reason for cautious optimism. The decline in sales of heavy equipment flattened out and order flows improved with demand from Asia particularly strong in recent months. Manufacturers with ties to housing also noted a leveling out in the decline in activity in their industries.

Banking/finance. Credit conditions, while still tight, further improved in September and early October. Credit spreads narrowed, and net corporate funding costs continued to decline. Banking contacts reported an increase in deal discussion, although loan demand remained weak. Asset quality improved and showed some signs of stabilizing at current low levels. In general, contacts expected credit to ease going into 2010 for businesses and consumers. However, several pointed out that lenders' balance sheets remain constrained and capital preservation and loan loss provision continue to restrict the flow of credit. Small businesses, in particular, still experienced very tight credit markets. Deteriorating commercial real estate conditions were again a concern, although a banking contact noted that they had some success in modifying loans so that cost savings could be passed on to tenants. Liquidity in the secondary mortgage market was also raised as a concern with the end of the Fed's agency security purchase program nearing. Financial contacts were more inclined to be pessimistic about the outlook for the beginning of 2010, pointing to the end of stimulus measures as well as weak labor and housing markets.

Prices/costs. Price pressures were mixed in September and early October. Several contacts noted an increase in prices for materials like steel and paper. Some increase in energy prices was also reported, although a contact noted that very high levels of stored natural gas will likely lead to lower heating costs this winter. Pass-through of cost pressures to downstream prices was minimal, as contacts indicated pricing power remained limited. In contrast, downward price pressures were reported in the construction and retail industries as well as in food prices. Wage pressures were not significant, with most firms holding current wage levels.

Agriculture. Harvesting the District's large corn and soybean crop will take longer than normal due to delays from wet weather in addition to the late maturity of the crops. Early reports indicated lower than expected yields for corn and some issues with quality. Soybean yields were in line with expectations for a record crop. With old supplies drawn down and new supply slowed coming out of the fields, corn prices moved up throughout the reporting period, benefitting those farmers who could deliver corn. In contrast, soybean prices were lower in early October than at the start of September. Livestock prices recovered some from summer lows, but

were still well below the levels of a year ago. Purchases by the U.S. Department of Agriculture provided some support for hog prices. However, there were reports of unpaid feed bills and bankruptcy negotiations for hog operations; and a contact indicated that some nearly new hog facilities sat empty. Government payments helped smaller dairy operators, but were a relatively minor factor for large dairy operations that continued to operate underwater. The ethanol industry benefited from higher sugar prices which reduced competition from substitutes for corn-based ethanol.

EIGHTH DISTRICT - ST. LOUIS**Summary**

Overall, business conditions in the Eighth District have declined since our last report, and the rate of decline is mostly comparable to that of recent periods. Manufacturing has continued to decline, the services sector has experienced a net contraction of jobs, and the retail sector reported mixed results. Both residential and commercial real estate declined. Banks reported declines in lending activity. Reports from the agricultural sector were mixed.

Manufacturing and Other Business Activity

Manufacturing continued its net decline since our previous report, with more contacts reporting job layoffs and fewer new orders than contacts reporting new hires and expansions. However, several firms and industries did report new hiring activity and expansion of facilities. Firms in heating, ventilation and air conditioning manufacturing, petroleum/coal manufacturing, rubber tire manufacturing, and chemical manufacturing reported plans to open plants and expand operations in the near future and hire additional employees. In addition, a firm in paper products manufacturing also announced plans to hire additional workers and increase production in its existing facilities. In contrast, a larger number of contacts reported job losses. A firm in the appliance manufacturing business closed a plant, with significant job losses. Other firms in silicon product manufacturing, furniture manufacturing, and a surface coal mine all closed their facilities, with resulting job losses. Firms in timber products and auto parts also cut jobs due to declines in new orders.

The District's services sector continued to experience contraction in net jobs. Small firms in business support services and education services announced a few new hires, but in contrast, several larger firms in business support services announced reductions in staff due to declining

revenues. One firm closed its facility, and a few others announced pay freezes for their remaining workers. Contacts in the retail sector reported a mixed outlook. General and big box retailers began to expand in a few regions, filling in previously vacant spaces. However, the bankruptcy of a regional grocery retailer led to a significant number of job losses. Smaller retailers reported a mixed picture, with a slight increase in sales but dimmed optimism for the remaining months of this year. Auto dealerships dropped by GM expressed cautious optimism and plan to sell off their inventory while pursuing additional service opportunities.

Real Estate and Construction

Home sales continued to decline throughout the Eighth District. Compared with the same period in 2008, August 2009 year-to-date home sales were down 8 percent in St. Louis, 10 percent in Louisville, 12 percent in Little Rock, and 15 percent in Memphis. Residential construction also continued to decline throughout the District. August 2009 year-to-date single-family housing permits fell in most District metro areas compared with the same period in 2008. Permits declined 15 percent in Little Rock, 23 percent in St. Louis, 25 percent in Louisville, and 45 percent in Memphis.

Commercial real estate and construction markets struggled throughout the District. A contact in St. Louis noted that the pace of commercial foreclosures is increasing. Contacts in St. Louis and Memphis noted that a number of high-profile properties have recently been foreclosed. A contact in central Arkansas reported that while commercial construction has been positive thus far this year, 2010 is projected to be meager at best. Industrial real estate and construction contacts throughout the District also continued to report a difficult environment. A contact in Memphis does not expect the industrial real estate market to improve until late 2010. Contacts throughout the District noted that no speculative industrial construction is taking place.

Banking and Finance

Total loans outstanding at a sample of small and mid-sized District banks decreased 2.5 percent in the three-month period from mid-June to mid-September. Real estate lending, which accounts for 73.2 percent of total loans, decreased 2.4 percent. Commercial and industrial loans, accounting for 16.7 percent of total loans, decreased 2.5 percent. Loans to individuals, accounting for 5.3 percent of loans, decreased 3.4 percent. All other loans decreased 4.2 percent and accounted for 4.8 percent of total loans. Over this period, total deposits increased 0.4 percent.

Agriculture and Natural Resources

Recent heavy rains throughout much of the District have slowed crop maturity and delayed harvests. At the beginning of October, the overall corn, soybean, sorghum, cotton, and rice harvests were behind their normal paces by 36 percent to 95 percent. Since our previous report, overall crop conditions remained similar for corn but deteriorated slightly for the other major crops. Less than 10 percent of the overall corn but more than 10 percent of the other crops were rated poor. Yield estimates of corn in Arkansas, soybeans in Indiana, and rice in Mississippi declined slightly from August to September. Yield estimates for corn, soybeans, sorghum, rice, cotton, and tobacco in the remaining District states that grow these crops stayed the same or increased. Cases of Asian soybean rust—a disease that reduces yield—have been reported in every District state; in many cases, the crop was mature enough that the disease caused minimal damage.

NINTH DISTRICT--MINNEAPOLIS

Overall economic activity in the Ninth District was steady with some signs of recovery. The manufacturing, energy, mining and residential real estate sectors saw moderate increases. Agriculture, consumer spending and tourism were mixed, while activity in services was flat. Decreases in activity occurred in construction and commercial real estate. Labor markets remained weak, but some signs of improvement were noted. Meanwhile, wage increases were modest, and overall prices were generally unchanged.

Consumer Spending and Tourism

Retail spending was mixed. A major Minneapolis-based retailer reported that same-store sales in September were down 2 percent compared with a year earlier. A Minneapolis area mall and a Montana mall reported that recent sales were flat compared with a year ago. Contacts in northwestern Montana said they generally have not noticed increases in retail spending. Meanwhile, September traffic at a North Dakota mall started stronger following a relatively slow August, when same-store sales were down slightly.

Auto sales slipped in September following the end of the cash-for-clunkers program. An auto dealer in North Dakota reported that sales dropped to more typical levels after the program ended. Inventory levels of new cars were down substantially; some dealers were purchasing newer used vehicles at higher prices to make up for the lack of new-car inventory.

Tourism activity was mixed. The number of visitors at several attractions in the Upper Peninsula of Michigan during late summer and early fall was at or above year-ago levels; however, lodging revenue was down almost 10 percent, according to a tourism official. Tourism spending in northwestern Montana was down slightly from a year ago. Meanwhile, attendance at the Minnesota State Fair during late August and early September was up about 6 percent compared with last year.

Construction and Real Estate

Commercial construction was at low levels. A construction products supplier in Minnesota said that drops in spending on state and locally financed projects have been offset by federal stimulus financed projects. A representative of a contractors' association in Montana pointed to several large infrastructure projects, including coal and hydroelectric power. However, private office, industrial and retail development was very weak across the District. Residential construction activity was slow. The value of September residential permits decreased 39 percent from a year earlier in the Minneapolis-St. Paul area and decreased 19 percent in Sioux Falls, S.D. A Montana

contractor reported slow activity in recent high-growth areas, but activity was up in Great Falls, Helena and Billings.

Commercial real estate markets saw continued sluggish activity. A Minneapolis-St. Paul commercial real estate firm said office subleases have increased as tenants required less space, and that more landlords were offering “as-is” deals with lower rents in exchange for fewer amenities. Retail vacancy remained elevated in markets across the District. Residential real estate showed signs of improvement, as buyers scrambled to take advantage of the federal first-time home buyer tax credit before it expires on November 30. Pending sales in the Minneapolis-St. Paul area in September were about 24 percent higher than levels a year earlier. Home sales fell slightly from last year in Sioux Falls, while sales in Bismarck, N.D., were about even with last year’s strong levels.

Services

Overall activity was stable in the professional business services sector. Over half the respondents to an October informal Fed poll of professional business services firms reported that September activity was flat at low levels. The remainder of respondents were evenly split between growth and contraction. Contacts at legal firms said that business was level, although the type of work had shifted toward work-outs and litigation. Some information technology consultants noted an uptick, while engineers reported fierce competition and delays in getting paid. Contacts from the management consulting area noticed a slight downturn in activity. Architects continued to report very few projects to bid on.

Manufacturing

Manufacturing output was up. A September survey of purchasing managers by Creighton University (Omaha, Neb.) indicated that manufacturing activity increased in Minnesota and the Dakotas because of strong new orders. A Minnesota metal fabricator noted plans to increase production by adding shifts. A diversified manufacturer noted stable orders over the past month. However, a cement plant in Montana ceased production, and a North Dakota construction equipment maker shut down a factory.

Energy and Mining

Activity in the energy and mining sectors increased slightly. Late-September oil and gas exploration inched up from mid-August. Several large wind energy projects were planned in District states. A new iron ore processing plant plans to open, and mines in northern Minnesota were increasing production.

Agriculture

Agricultural conditions were mixed. The sugar beet harvest was larger than previously expected. Montana winter wheat crop planting was ahead of schedule. Favorable growing conditions occurred during September across most of the District. However, parts of western Wisconsin and Minnesota were in severe drought, and the progress of harvest of major District crops was behind the five-year average. Meanwhile, cattle, dairy and hog producers' profit margins have been squeezed.

Employment, Wages and Prices

Labor markets remained weak, but some signs of improvement were noted. Minnesota initial claims for unemployment insurance were up 75 percent in August compared with a year ago, but the pace of increase seems to have leveled over the past few months. A Minnesota manufacturer announced plans to create 50 new positions to build specialty cranes. Also in Minnesota, a vehicle plant increased overtime hours in September, and an auto parts maker hired back 145 employees due to increased demand. A representative of a career center at the University of Minnesota noted that a recent job fair had more full-time jobs offered than a fair last spring. However, an industrial heat exchanger plant in southwestern Wisconsin announced plans to lay off 90 employees.

Wage increases remained modest. According to respondents to the recent St. Cloud (Minn.) Area Business Outlook Survey, 15 percent expect to increase employee compensation over the next six months, down from 35 percent in last year's survey.

Overall prices were generally unchanged. Only about 15 percent of respondents to the St. Cloud survey expect increases in their own product prices over the next six months, down from 33 percent a year ago. Minnesota gasoline prices declined 12 cents per gallon in late September from a month earlier and were down more than \$1 per gallon from a year ago. Lower natural gas prices and an expected mild winter could reduce home heating bills up to 15 percent in the Midwest.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy expanded slightly in September and early October. Retail spending increased somewhat, but auto sales dropped back sharply and tourism activity slowed. Manufacturing activity showed gains, and further improvements were expected in the months ahead. The residential real estate sector exhibited signs of stabilization, while commercial real estate conditions worsened. Bankers reported slight declines in loan demand and increases in deposits; they expected loan quality to deteriorate in the coming months. Activity in the energy sector expanded slightly since the previous survey but was still down considerably from year-ago levels. The anticipation of an above average harvest trimmed agricultural prices and farm income expectations. Despite rising raw materials prices, consumer prices drifted down. District employment conditions remained soft with almost no contacts reporting any wage pressure.

Consumer Spending. Consumer spending has been mixed since the last survey period. Some retail contacts indicated increased sales in September and early October. Retailers reported strong sales of cold weather apparel and lower-priced goods but sluggish sales of jewelry and summer merchandise. Retail sales were expected to increase further over the next three months, but many contacts expected consumer demand to be weak relative to pre-recession levels for some time. Restaurant sales and average check size stabilized over the survey period, but most restaurant contacts continued to report fewer sales compared with one year ago. Auto dealers reported a sharp drop-off in sales after the end of the cash-for-clunkers program. Most auto contacts reported that inventory levels were too low, especially for used cars. Tourism spending declined, and almost all hotel contacts indicated that occupancy rates remained below year-ago levels. Both tourism and hotel contacts expected worsening conditions over the next three months.

Manufacturing and Other Business Activity. Activity in the District's manufacturing and high-tech sectors rose in September, while transportation activity was flat. Manufacturers reported increases in production, shipments, and new orders and expected further gains over the next six months. Increased activity was noted for both durable and nondurable goods production,

but activity remained well below year-ago levels. Aircraft manufacturing was an exception, with contacts reporting continued declines in activity. The number of manufacturers expecting a gain in employment and average employee workweek over the next six months increased since the previous survey. However, manufacturers remained cautious about capital spending. Technology-related firms indicated an uptick in sales and expected additional gains in the near future. Since the last survey, contacts noted that transportation activity had been flat but expected improvements over the next three months.

Real Estate and Construction. The residential real estate market showed signs of stabilizing, while commercial real estate conditions deteriorated. Sales of lower-priced homes continued to increase over the past month, while demand for luxury properties remained sluggish. Most real estate contacts reported that home sales were higher than year-ago levels amid still falling home prices. However, respondents expected some decrease in activity over the next few months due to seasonal factors and the expiration of the first time homebuyer tax credit. Builders reported some stabilization in housing starts, but levels remained well below one year ago and were not expected to improve over the next three months. The deterioration in commercial real estate activity continued in September and early October and is expected to worsen in the coming months. Vacancy rates rose slightly, and absorption rates fell sharply leading to lower rents. Commercial construction activity declined and sales slowed resulting in lower prices. Developers continued to report difficulty obtaining credit.

Banking. Bankers reported moderately weaker loan demand, further increases in deposits, and a continued negative outlook for loan quality. Overall loan demand continued to decline, but at a somewhat slower rate than in the previous survey. Demand fell further for commercial real estate loans. However, demand for commercial and industrial loans held steady following a long string of declines since early last year. Demand for consumer installment loans was also unchanged, and demand for residential real estate loans resumed increasing after a dip in the last survey. Some banks continued to tighten credit standards on commercial real estate loans, but credit standards for other loan categories were generally unchanged. Loan quality remained substantially lower than a year ago, and about half of respondents expected loan

quality to decline further over the next six months. Deposits rose further, with most categories sharing in the increase. Among factors cited for the increase were a continued flight to quality, a desire by investors to park their cash on the sidelines, and an easing in rate competition from troubled institutions.

Energy. Energy activity edged up in September and early October but remained considerably below year-ago levels. Overall drilling activity improved slightly over the previous month, mainly among crude oil producers, and activity was expected to remain stable. However, rig counts were still at low levels historically, particularly for natural gas in Colorado and Oklahoma. Natural gas prices remained subdued due to record supplies in storage. However, many producers expected price increases in the coming cold winter months.

Agriculture. Since the last survey period, the prospects of a bumper crop limited agricultural commodity prices and pushed down farm income expectations. The majority of the corn and soybean crops were reported in good or better condition. Farmers anticipated above average yields, although delayed spring planting has set back the harvest. Winter wheat planting was progressing well. Weak livestock demand limited profits for hog and cattle operators. With weaker crop and livestock incomes, District bankers reported stronger demand for operating loans and lower farm loan repayment rates. However, farmland values held near year-ago levels as contacts noted stronger non-farmer investor demand and fewer farms being offered for sale.

Wages and Prices. Consumer prices generally decreased, and labor market conditions remained weak. Manufacturers reported rising prices for raw materials and expected additional increases over the next few months. However, these costs were still below year-ago levels and were not expected to be passed along to customers in the form of higher prices for finished goods. Retailers continued to report price decreases and expected additional declines in the coming months. Restaurant contacts noted a decline in food prices. The majority of firms did not expect to increase employment over the next few months, and almost no contacts reported any wage pressure.

ELEVENTH DISTRICT—DALLAS

Economic conditions were little changed in the Eleventh District in September and early October, but there continued to be scattered signs of improvement. Activity remained flat at low levels across most sectors, with the exception of high-tech, food, petrochemical manufacturing and staffing industries, which saw a pickup in demand. The labor market remained weak and no notable pressures on wages or prices were reported. While contacts noted that they were seeing a bottoming out in activity, many were uncertain about the timing and strength of the recovery.

Prices Price pressures remain subdued across industries. Most contacts said prices held steady, although service contacts noted increased pressure to discount fees. Construction costs continued to decline, and some contractors said they were willing to complete work for below cost just to keep the business. Most contacts said input costs remained steady over the past six weeks.

Crude oil prices stayed in a range between \$65 and \$75 per barrel from mid-September to early October. Heating oil prices were seasonally weak heading into winter, as distillate inventories rose to 25 percent above the five-year average range. Natural gas spot prices in one key market briefly fell below \$2 per Mcf but mostly remained in a range of \$2 to \$3.60 during the reporting period, some of the lowest prices since 2002. Natural gas storage has risen to record levels, and contacts are concerned that storage may fill before the heating season begins, putting even more downward pressure on prices.

Labor Market Employment levels held steady at most respondent firms, with scattered reports of layoffs. Job cuts continued in the airline, energy, and construction-related manufacturing industries. In contrast, staffing firms noted continued broad based improvement in demand for contract workers, and respondents in trailer and brick manufacturing reported a slight increase in headcount. No notable wage pressures were reported, with the exception of downward pressure in skilled crafts in oil-related construction and maintenance.

Manufacturing Most respondents in construction-related manufacturing said demand was flat at weak levels. The exception was in the primary metals industry where demand edged down due to minimal commercial construction activity. Outlooks were bleak as demand is expected to remain subdued, and there is idle capacity in the industry.

Respondents in high-tech manufacturing said that production and new orders increased since the last report. Contacts noted that orders had picked up strongly from retailers and intermediate buyers that had sharply reduced inventories in the first half of the year. Demand from Asia was reported to be strong, and there was a better-than-expected increase in orders for products that contain logic devices such as netbooks and notebooks. Respondents expect demand to remain strong through year-end, although most expect growth in orders to level out in the first quarter of 2010.

Conditions in transportation manufacturing remain weak, with one respondent noting “we are trawling at the bottom of the sea.” Many expect flat demand in the near term, but are hopeful for a possible recovery in late 2010. Most respondents in the paper industry said demand continues to stabilize at weak levels, while food manufacturers said demand had picked up slightly and was better than a year ago.

Petrochemical demand varied across products. Demand for polyvinyl chloride, which is used most often in construction products, is weak domestically. But export demand is very strong, boosted by the low cost of natural gas-based petrochemical products from the U.S. over oil-based ones supplied internationally. Still, the increase has not been enough to absorb excess capacity in the industry overall. Products sold into general manufacturing have seen improved domestic and export demand, and capacity utilization is on its way to returning to normal, according to contacts. Demand for oil products remains weak relative to a year ago, but is up from summer levels. Refiners reduced output due to poor margins and high product inventories. There were reports that planned projects, and even routine maintenance, were being deferred to conserve capital.

Retail Sales Retail demand was largely unchanged from the last report, and sales in Texas continued to track the national average. Value-based retailers continued to note unexpected weakness in sales. Department store contacts said September sales were soft but more in-line with expectations. Retailers are nervous about how sales will turn out over the upcoming holiday season and are holding back on adding inventories and seasonal hiring.

Automobile sales have declined sharply since the end of the cash-for-clunkers program. The program helped clear out old inventory and boosted dealer profits, but now that it has ended, car dealers are nervous about how long it will take before demand returns back to normal levels.

Services Staffing firms say that demand continues to improve and orders are streaming in at a soft but consistent pace. Demand is concentrated in contract work, and orders for direct hires are “dead in the water,” except at one firm which noted a pickup in its direct hire business. By and large orders are for sales, call center, healthcare administrative, and manufacturing positions. Although contacts are more upbeat this time around than the previous reporting period, the outlook remains cautious through mid-2010.

Demand for legal services remains depressed, with the exception of regulatory, and pharmaceutical litigation and bankruptcy business. Legal firms report that receivables are slowing and getting more difficult to collect, especially from real estate clients. The outlook is bleak, and contacts note that if deal workout and litigation business does not pick up, “things could be ugly” by year-end. Contacts in accounting services reported steady, moderate demand.

Intermodal firms report that falling import demand has led to a decline in cargo volumes over the last 30 days. Small parcel shipping and large freight volumes increased in September, continuing a trend that began in July. Shipping contacts report an improved outlook for the fourth quarter as they expect their clients to restock depleted inventories. Contacts in railroad transportation noted steady cargo volumes at low levels. Significant increases were observed in motor vehicle shipments due to the cash-for clunkers program, while pronounced declines were seen in shipments of lumber, wood, crushed stone and non-metallic minerals. Airlines say that business demand has stabilized at low levels. While revenue forecasts remain weak, there is growing optimism among most contacts.

Construction and Real Estate Home sales continued to edge up over the past six weeks—boosted by the first-time homebuyer tax credit. Despite the uptick, new and existing home sales remain below year-ago levels. Homebuilders say conditions continue to show a bottoming out, with tighter inventories leading to some slight pickup in new construction. However, outlooks for any significant upturn remain uncertain. Realtors continue to report weakness in the higher-priced home market.

Nonresidential construction activity continues to decline. There were several reports that the only “sure” business will come from government stimulus projects, although funding for such projects has been slow to materialize. Contacts noted hotel, apartment, industrial, retail and office sectors are overbuilt, and property values continue to move down. Respondents say it is still a struggle to get financing for new private commercial projects and for investment in

existing properties. Scattered reports among contacts suggest the number of interested investors sitting on the sidelines is growing.

Financial Services Conditions in the financial services industry deteriorated over the past six weeks. Contacts said loan demand weakened in September, after showing signs of firming in the previous report. Loan demand was disappointing across the board, especially for consumer loans and residential mortgages. Commercial real estate loans remained scarce. Contacts said they were maintaining tight credit standards, and noted that credit quality continues to deteriorate. Respondents remain very cautious in their outlooks, and some noted concern about upcoming changes in the regulatory environment.

Energy The Eleventh District rig count rose in September and early October, spurred by oil-directed drilling. Despite the increase, contacts say excess capacity in the industry is leading to job losses and weak domestic pricing. Many international contracts, negotiated at the peak of drilling activity, are now rolling over, and relatively lower prices are putting pressure on company profits. The natural gas industry faces dire conditions with low prices and record high inventories.

Agriculture Widespread rains in mid-September brought much needed relief to several drought-stricken parts of the District. Stock tanks were replenished and pastures greened up, allowing many ranchers to scale back costly supplemental feeding. The rain also aided planting of winter wheat; however, it came in too late to prevent devastating losses to the livestock industry and to dryland crops, which could top \$4 billion. Although short-term moisture conditions have improved, long-term deficits persist in south and central Texas. Net farm income is expected to be lower in 2009 compared with last year due to low commodity prices and feeble global demand.

TWELFTH DISTRICT–SAN FRANCISCO**Summary**

Economic activity in the Twelfth District appeared to pick up slightly during the reporting period of September through early October, with reports pointing to additional signs of stabilization or improvement in some sectors. Upward pressures on prices and wages were largely absent. Retail sales remained sluggish on net, while demand for most services continued to slide. District manufacturing activity firmed a bit further, although excess capacity remained unusually high in some sectors. Demand appeared to hold largely steady for agricultural producers but continued to weaken for providers of natural resource products. Demand for housing showed further slight improvement, but conditions continued to deteriorate in commercial real estate markets. Contacts from the banking industry and other industries reported stable or slightly increased loan demand and improved credit access.

Wages and Prices

Upward price pressures were weak to nonexistent during the reporting period. Commodity prices in general were stable, although contacts noted that energy prices have been mixed in recent months, with oil up and natural gas down. Retailers reported that sales prices were below their levels from 12 months earlier in many cases, and service providers such as hotel operators, trucking companies, and providers of professional services reported significant rate cuts in recent months. By contrast, prices have firmed for computer memory chips as a result of sustained demand increases this year.

Contacts generally characterized wages as flat, although some businesses faced significant increases in the costs of employee benefits. Upward wage pressures were limited by high unemployment in most areas, and contacts noted ample availability for hourly and salaried employees alike. Employment cuts and an ongoing focus on organizational and technological efficiencies have enabled many businesses to raise productivity and reduce their labor costs this year, although this has been offset by rising costs of employee health benefits and retirement plans in some cases.

Retail Trade and Services

Sales of retail items other than automobiles were little changed on net. Reports from retailers of various types indicated that unit sales and revenues were little changed from prior low levels; consumers' continued preference for lower-priced options held down sales of more expensive items in general and contributed to a decline in revenues at grocery stores. By contrast, contacts pointed to stronger demand and sales for furniture. Retail inventories generally were reported to be at or near preferred levels, as most retailers have adjusted to the lower level and changing composition of demand. Sales of new automobiles and light trucks fell back to the very low levels that prevailed prior to the August surge resulting from the Federal government's cash-for-clunkers program. Demand for used automobiles also weakened during the reporting period; however, because households and rental companies have been extending their ownership intervals for existing vehicles, inventories remained lean and prices rose.

Demand for services fell further. Activity was very slow for providers of business services such as consulting and trucking, and reduced passenger volumes for airlines were attributed in part to ongoing declines in business travel. Demand and revenues continued to ease for providers of health-care services, as consumers reportedly have been deferring elective procedures and coinsurance payments. Restaurant and food service providers continued to struggle with weak demand, although one contact pointed to a stabilization compared with the steep declines observed earlier in the year. Conditions remained somewhat mixed but very challenging on net in the tourism and leisure sector: the steep slide in hotel and resort visits continued in Southern California and Las Vegas, but contacts in Hawaii reported continued firming in visitor arrivals and hotel occupancy rates.

Manufacturing

District manufacturing activity showed further signs of improvement but remained at low levels overall during the reporting period of September through early October. Conditions continued to improve for manufacturers of semiconductors and other information technology products, with capacity utilization rates reportedly returning to levels achieved prior to the recession in some cases. Food manufacturers

also reported strong demand and significant sales gains. By contrast, metal fabricators and makers of wood products reported no improvement over prevailing conditions of extreme slack. Activity at petroleum refineries continued to decline as a result of producers' efforts to reduce excess inventories. Makers of commercial aircraft and parts reported that new orders were "almost nonexistent," although ongoing work on the prior backlog has prevented precipitous declines in deliveries and revenues.

Agriculture and Resource-related Industries

Demand for agricultural products was largely unchanged, but it fell further for extractors of natural resources used for energy production. Sales held largely steady for most types of agricultural products, and favorable production conditions, including ample availability of inputs, reportedly have led to excess supply for some crops and dairy products. Weak demand has caused a reduction in sales and extraction activity for oil and natural gas; inventories were very high on a seasonal basis, especially for natural gas, for which inventories reportedly are approaching storage capacity.

Real Estate and Construction

Reports suggested that demand for housing continued to improve slowly, while demand for commercial real estate eroded further. The pace of home sales picked up further in parts of the District, accompanied by rising prices in some cases. However, the momentum for recovery has been undermined by ongoing increases in foreclosure rates, which have slowed the decline in the inventory of available homes. As a result, new home construction continued at a very slow pace throughout the District, and industry contacts noted little or no prospect for a significant pickup in the near term. Conditions continued to deteriorate in the commercial real estate market: demand for office and industrial space fell further, and financing for new development and purchases reportedly remained "frozen."

Financial Institutions

District banking contacts reported that loan demand was largely stable or perhaps rose slightly compared with previous reporting periods. Reports from various areas suggested some pickup in total loan volumes, although contacts also noted that business loan demand has been held down by companies' reluctance to make new capital investments before they observe concrete evidence of a sustained

economic recovery. Lending standards remained relatively restrictive, with scattered reports of further tightening, especially for commercial real estate lending, and credit quality continued to deteriorate. However, on net bankers and other contacts noted improved access to financial capital in recent months.