

January 16, 2008

Summary of Commentary on Current Economic Conditions by Federal Reserve District

Summary

Prepared at the Federal Reserve Bank of Atlanta and based on information collected before January 7, 2008. 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.

Reports from the twelve Federal Reserve Districts suggest that economic activity increased modestly during the survey period of mid-November through December, but at a slower pace compared with the previous survey period. Among Districts, seven reported a slight increase in activity, two reported mixed conditions, and activity in three Districts was described as slowing.

Most reports on retail activity indicated subdued holiday spending and further weakness in auto sales. However, most reports on tourism spending were positive. Residential real estate conditions continued to be quite weak in all Districts. Reports on commercial real estate activity varied, with some reports noting signs of softening demand. Manufacturing reports varied across industries, with pronounced weakness noted in housing-related industries as well as the automobile industry. Strong export orders and increased demand in industries whose products compete against imports was reported by some Districts. Demand for nonfinancial services remained generally positive, although some Districts commented on continuing weak demand for transportation services.

Reports from banks and other financial institutions noted further declines in residential real estate lending, and lending to the commercial real estate sector was generally described as mixed. Some Districts reported lower consumer loan volumes, whereas the volume of commercial and industrial lending varied. Most Districts cited tighter credit standards.

Demand continued to decline for construction workers and those in housing-related industries, according to most reports, while demand generally held steady for skilled workers in nonfinancial service industries. Wage increases remained moderate overall. Increases in prices for food, petrochemicals, metals, and energy-related inputs continued to be widely reported, and production and delivery costs for many products increased because of higher fuel prices. Producers in the agricultural sector reported generally strong demand and favorable production conditions outside of the drought-stricken areas in the Southeast. Strong oil and gas exploration and production activity was noted by several Districts.

Consumer Spending and Tourism

Reports indicate that holiday sales were generally disappointing. Sales in the Atlanta, Boston, Chicago, Cleveland, Dallas, New York, Richmond, and San Francisco Districts were variously described as lackluster, weak, below year-ago levels, or mixed. Kansas City reported that spending was solid, but below expectations. Sales rose modestly according to Minneapolis, Philadelphia, and St. Louis reports. Atlanta and New York merchants noted that foreign buyers were a boost to holiday sales. Overall, the outlook for 2008 among retail merchants was cautious.

Most Districts reported that vehicle sales for late 2007 were below year-ago levels. However, the Minneapolis report noted strong demand from area farmers and Canadians purchasing vehicles across the border. The Atlanta and Kansas City Districts reported that sluggish vehicle demand has resulted in unexpected inventory accumulation. However, imports and fuel-efficient vehicles continued to sell well according to the Philadelphia, Kansas City, and Dallas reports. Atlanta noted that some foreign brands had turned to fleet sales to offset generally weaker retail demand. Dealers in Philadelphia and Cleveland anticipated that sales in 2008 would be flat to lower than in 2007.

Reports on tourism were mostly positive. The Atlanta District observed that Florida businesses catering to winter visitors experienced increased demand. The number of visitors from Europe and Canada were especially strong, and bookings for the Spring were robust. Minneapolis reported that solid snowfall in many parts of the District helped spur winter tourism activity. Richmond's assessment of tourist activity was also generally upbeat. Tourism activity in New York City was said to have remained strong through year-end.

Nonfinancial Services

Most reports cited robust demand in several nonfinancial service industries including health care, hospitality, legal, and insurance. According to Atlanta, the demand for engineers, particularly in petrochemical fields, was very strong. Reports on temporary staffing services were mixed. For instance, Dallas and Philadelphia noted that employment firms reported weaker demand for temporary workers, whereas New York and Richmond reported relatively strong demand.

Demand for transportation services was generally weak, led by lower demand from the housing sector. Reports indicated that freight volume continued to weaken in the Atlanta and Cleveland Districts and was slow overall in the Dallas District. Inter-modal transportation volumes were also said to be lower in the Atlanta and Dallas Districts, although Dallas noted that rail shipments were up, led by strong agricultural shipments.

Manufacturing

Reports on manufacturing activity varied. Kansas City reported that manufacturing was expanding and that manufacturers were relatively upbeat. Cleveland reported that manufacturing output remained steady overall, whereas Dallas indicated that conditions continued to soften. New York reported that manufacturing activity appeared to weaken somewhat in early December, but noted some improvement later in the month. Among the positive reports, San Francisco noted that production and new orders for commercial aircraft

and parts remained solid, while sales of information-technology products continued to increase moderately. Boston said that sales of aircraft equipment and pharmaceuticals continued to rise at a robust rate. Atlanta and Minneapolis noted that defense and energy-related manufacturers reported strong activity. St. Louis and San Francisco reported that the local food production industry was expanding.

Philadelphia, Chicago, Kansas City, and Atlanta reported that many firms were expanding export activity. In some cases, demand was also said to have increased as a result of import substitution. For example, Chicago reported that domestic steel production was expanding, led by a moderation in imports. Demand for equipment used in energy extraction and mining continued to be robust as well.

However, according to most Districts, conditions in manufacturing industries producing construction and home-related goods remained weak. Richmond noted weakness in demand for electronics, and San Francisco described production of industrial equipment as tepid. In addition, auto-related production was soft according to the Cleveland, Chicago, and St. Louis reports.

Real Estate and Construction

Conditions in most housing markets remained quite weak through year-end. The pace of sales continued to be sluggish, and inventories persisted at historically high levels according to most Districts. Home construction levels continued to decline according to Atlanta, Chicago, Dallas, Kansas City, and St. Louis reports. Reports on home prices varied. While Dallas observed that home prices were steady, Atlanta, Cleveland, Kansas City, New York, and Richmond reported that prices declined; the Boston and San Francisco Districts said that changes in home prices were mixed. Overall, contacts anticipate that housing markets will remain weak during the first part of 2008.

Reports on commercial real estate activity varied, with some Districts noting that activity had eased late in the year. Contacts in the Atlanta and Boston Districts indicated that commercial markets were little changed while the Chicago, Kansas City, Minneapolis, Philadelphia, and Richmond reports suggested slower growth. Activity was stable to increasing according to the Cleveland, Dallas, and San Francisco reports. Vacancy rates were described as stable in the New York, Philadelphia, and Kansas City Districts, and as varied in the Richmond District. Chicago and Minneapolis contacts noted that retail vacancies had risen. Kansas City contacts reported that leasing activity was stable, whereas leasing activity in the Richmond, Philadelphia, and New York Districts had slowed. Most Boston District contacts reported that rents were flat, while rents were steady to declining according to the Chicago and Kansas City reports. New York and Richmond noted that rental rates had stabilized in the fourth quarter, whereas Dallas continued to report rising rental rates.

Contacts in the Boston and Chicago Districts indicated that commercial construction activity was slowing. Developers in the Atlanta and Richmond Districts reported smaller backlogs of projects while Cleveland District contacts said that backlogs had risen. Most contacts anticipate a slower pace of commercial development during 2008.

Banking and Finance

Reports suggest that both business and consumer lending activity slowed in most Districts from mid-November through December. Residential mortgage lending continued to contract in all Districts while refinancing activity varied. For instance, Chicago and Richmond noted increased refinancing activity, but New York cited widespread declines in refinancing. Reports on commercial real estate loan demand were also mixed, although Dallas and Cleveland noted relatively healthy demand. Most reports indicated that credit standards for most loan categories had tightened over the period. Downward pressure on deposits was noted by Chicago, New York, Philadelphia, St Louis, Kansas City, and Dallas. Several Districts reported declines in loan quality and increased delinquencies.

Agriculture and Natural Resources

The performance of the agricultural sector across Districts was generally favorable. Upbeat conditions in Chicago, Minneapolis, and San Francisco were attributed to a combination of higher crop prices and favorable weather. Dallas and San Francisco reported strong domestic and global demand for their products. Kansas City reported that strong demand and low inventories boosted prices and income for crop producers. However, despite recent rains, conditions for drought-stricken areas in the Atlanta and Richmond Districts remained generally poor.

Activity in the energy sector increased according to the Atlanta, Dallas, Kansas City, and Minneapolis Districts. Dallas noted a sharp rise in the Texas rig count while Kansas City cited strong drilling activity in Oklahoma and Colorado. However, seasonal factors dampened drilling activity in the Cleveland District, and reports on coal production in the region were mixed. Atlanta indicated that Gulf Coast crude inventories were low, but new offshore platforms should help boost production in 2008.

Prices and Wages

According to most reports, businesses continued to face rising costs for food, petrochemicals, metals, and energy-related inputs. Several Districts noted that transportation costs for most products increased. Philadelphia reported that some firms had raised output prices in order to cover higher energy costs. In the San Francisco District, price inflation was said to be limited in general, but significant for food and energy. Dallas reported that high or rising input costs were squeezing margins for most industries. Manufacturers in the New York District reported prices paid and received had increased and that this was expected to continue. Atlanta noted that input costs continued to increase for imported goods originating in Europe or Japan because of the lower value of the dollar. In contrast, producers of framing lumber, wallboard, and wood panels reported weak prices according to the Atlanta, Minneapolis, and Chicago reports.

Reports suggest that labor markets remained relatively tight overall, and especially for skilled workers, whereas housing-related industries continued to trim payrolls. Increases in employment costs were generally described as moderate. Kansas City reported that overall wage pressures eased, with only the energy sector citing significant wage pressure. Philadelphia reported that labor costs continued to increase at a moderate pace while Boston, Chicago, Dallas, and San Francisco reported that wage pressures remained limited outside of

a few sectors that continue to experience shortages of skilled labor. Wage pressures were not significant according to the Cleveland report.

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First District--Boston

Closing out 2007 with mixed results, business contacts in the First District express considerable uncertainty about 2008. Manufacturers and business consultants mostly report recent revenue results similar to earlier in the year and meeting their expectations but say they expect the first half of 2008 to be slower. Contacted retailers cite a wide range of sales results in November and December, with "challenges" ahead. Residential real estate markets remain soft. Cost pressures, especially from oil prices, are widely noted; some retailers and manufacturers expect to pass them along in higher prices. Manufacturers expect to increase wages in 2008 about the same or slightly more than they did in 2007, while selected business services firms plan to keep a somewhat tighter rein on their pay increases in 2008 than in 2007.

Retail

First District retailers report mixed sales results for the months of November and December. A contact in the hardware business says business has been "truly fantastic" because of heavy snow, while other respondents indicate inclement weather contributed to weaker than expected sales. Many retailers report strong sales in the week after the Christmas holiday. Some respondents note an increase in gift card purchases, continuing a trend of the past few years; gift cards are generally not reflected in sales numbers until redeemed.

Inventory levels are mixed, but several contacts note they are higher than expected because of decreased sales. Headcount is also mixed; several contacts report hiring in line with new store openings, while another--experiencing weak sales--plans layoffs in the near future. Capital spending is varied, with a couple of retailers shifting their focus to refurbishing current stores. The majority of contacted First District retailers observe varying degrees of price pressure, with modest increases being passed along to the consumer where possible. In particular, most respondents indicate they are feeling both direct and indirect effects of rising oil prices, including increased surcharges and decreased consumer spending.

Overall, retail respondents are cautious in their outlook and expect early 2008 to be challenging. Most retailers are worried about the impact of rising energy costs on both consumer confidence and disposable income. However, some are still cautiously optimistic, and one contact said that it surprises him that the consumer has been "so wonderfully resilient" over the last several months.

Manufacturing

Manufacturers and related services providers headquartered in the First District report that year-over-year revenue changes in fourth quarter 2007 remained similar to those in the prior quarter. Sales of aircraft equipment and pharmaceuticals continue to grow at a robust rate, while demand for home construction products continues to decline. Several manufacturers of

consumer products or consumer product inputs say they were relieved to experience somewhat improved business late in the fourth quarter. Makers of high-tech equipment and instruments indicate that sales trends remained solid through yearend, but they sense some hesitancy on the part of their customers going forward. Sales to western European markets appear to be slipping a bit, while other foreign sales remain on a positive course.

Most manufacturers report that materials costs are rising--especially for plastics, metals, grains, and energy--and they anticipate further escalation in coming months. Some contacts for whom such inputs account for a sizable component of overall costs describe these prices in terms such as "astronomical" or "out of control." For the most part, responding firms have been able to increase their selling prices somewhat in response to higher materials and energy prices, and they plan to continue to announce increases in 2008. However, about one-half of respondents express at least some degree of concern about growing margin pressures or obstacles to raising prices.

Manufacturers continue to adjust their U.S. headcounts only minimally. Average wage and salary increases are expected to remain in the range of 3 percent to 4 percent, but some firms employing mainly high-end technical workers are planning somewhat higher pay raises in 2008 than in 2007. More than one-half of the respondents say they will increase their U.S. capital spending in 2008, especially for research, development, and testing of new products and adoption of improved technologies. Most of the remaining firms intend to hold domestic investment steady.

Manufacturers and related services providers express a variety of views on their prospects in the coming 12 months, with some emphasizing that negative economic developments in late 2007 have led to growing uncertainty. Respondents increasingly voice concerns about margin pressures, the impacts of higher oil prices on the U.S. economy, or the ripple effects from the weak housing market and rising foreclosures. On the other hand, concerns about the availability of business credit seem to have abated, compared to the prior two Beige Books.

Selected Business Services

The majority of contacts at First District consulting firms report that fourth quarter revenues were strong, or stronger, than expected. Demand for consulting services from the airline industry and U.S. pharmaceuticals is robust; however, demand from the financial services sector has weakened. More generally, firms report that elevated economic and domestic political uncertainty is prompting their clients to delay committing to projects until they have a clearer picture of their situation.

The majority of contacted firms have put through modest price increases, while the remainder have left bill rates unchanged, citing a competitive market environment. Input costs are relatively stable. Headcounts at the majority of New England firms are growing, but at a slightly slower rate than revenues. Most respondents plan to increase wages by between 2 percent and 5 percent in 2008.

The majority of New England business services respondents expect to see lower revenue

growth in the first half of 2008 than they had in 2007, while the rest anticipate stable growth.

Commercial Real Estate

The common theme of respondents this time is that conditions have not changed much since the last report, either for the better or for the worse. In general, credit is much tighter than it was in the first half of 2007. The ratio of cash flow to building value in Boston is said to have edged up about 100 basis points over the low levels seen in mid-2007. This movement reflects the tighter credit situation and is consistent with reports of price depreciation for office buildings in Boston, Hartford, and Portland.

In most markets and sectors, rents and vacancies are flat and sales activity is slow. Although there are growing signs of a slowdown in non-residential construction in all markets, strong construction activity by hospitals and universities in greater Boston has mitigated the slowdown there. Reports are conflicting about the apartment market in Boston, with one contact describing it as "relatively strong" and another saying it is "weaker than expected."

The consensus expectation is that 2008 will be a slower year for commercial real estate than 2007. Sales volume and construction are expected to be below 2007 levels, prices will appreciate more slowly or will fall outright, with office building prices the most vulnerable. Rent growth is expected to slow or stall, absorption to slow, and vacancy to hold steady or increase. The key factors that contacts are watching are job growth and credit supply.

Residential Real Estate

New England residential real estate markets showed substantial drops in home sales in October and November compared to the same months in 2006. Comprehensive data (including foreclosures) showed sales declines of 17 percent to 18 percent year-over-year in Connecticut and Rhode Island in October. Massachusetts and Maine single-family home sales declined by double-digit percentages in October and November compared to a year earlier. New Hampshire sales decreased by just under 10 percent in those months.

Median home price changes are somewhat more varied in New England markets. Comprehensive data for October and November show median single-family prices in Massachusetts down 6 percent year-over-year. Similar data indicate Connecticut prices decreased 1 percent in October compared to the year before, while Rhode Island prices dropped 10 percent. State Realtors' data (including only multiple listings) show a 1 percent year-over-year price decline in New Hampshire and a 1.6 percent year-over-year price increase in Maine in November. In Massachusetts and Connecticut, condo sales are also down, although median condo prices have actually increased somewhat year-over-year, as the high end of the market is still relatively strong.

Contacts in Massachusetts remain concerned that negative media reports are causing buyers to avoid the housing market. Tighter lending standards are also said to be having a negative effect on sales. Several contacts expect New England residential real estate markets to remain weak well into 2008.

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Second District--New York

Economic growth in the Second District has slowed since the last report, though the labor market has remained fairly firm. Manufacturers report some weakening in business activity as of early December but note some improvement in early January. In general, contacts outside the manufacturing sector report little or no growth in business activity but some pickup in hiring. Retailers indicate that sales were relatively weak for the holiday season overall (November and December). Tourism activity in New York City has remained strong. Housing markets remain mixed but mostly weak, with the exception of Manhattan's co-op and condo market. Office markets in and around New York City were stable in the fourth quarter: vacancy rates are little changed since the last report, while asking rents are up slightly. Finally, bankers report weakening loan demand across the board, particularly for home mortgages, tightening credit standards in all categories, and rising delinquency rates, particularly on consumer loans.

Consumer Spending

Retailers report mixed but generally weak sales results for the holiday season. Overall, it appears that sales were flat to up modestly from 2006 levels. One major retail chain reports that same-store sales in the District were on plan, rising 5 percent from a year earlier, whereas another indicates that sales were below plan, falling more than 3 percent. Separately, a trade association survey of retailers across New York State indicates that sales were somewhat disappointing, with two in five indicating weaker sales than in 2006. In general, sales are reported to have picked up moderately after Christmas and into early January. Geographically, sales were reported to be relatively strong in New York City stores, as well as at those in the Buffalo area, with strength in the latter attributed to large numbers of Canadian shoppers.

Tourism activity in New York City remained strong through year-end. Hotels remained at close to full capacity in November and December. Hotel occupancy rates were reported to be close to 90 percent in both November and December, with room rates running roughly 13 percent ahead of a year earlier. Broadway theaters report that attendance and revenues bounced back in December, following the strike that shut down many shows for the final three weeks of November. Both attendance and revenues were down roughly 4 percent from a year earlier in December but still at relatively strong levels. Regional surveys point to declining consumer confidence in the final months of 2007. Based on the Conference Board's survey of Middle Atlantic residents, confidence fell for the third straight month in December and was at its lowest level in over two years. Siena College's survey of New York State residents shows confidence falling sharply in November and holding steady at a low level in December.

Construction and Real Estate

Office markets in the New York City area were generally stable in December and for the fourth quarter overall, with Manhattan's market remaining tighter than those in the surrounding areas. There was some slowing in leasing activity throughout the metro area,

though vacancy rates were little changed, while asking rents rose modestly. In Manhattan, the Downtown market continued to tighten, offsetting some softening in Midtown. An industry contact notes that large rent differentials are prompting some firms to move from Midtown to Downtown Manhattan. Overall, Manhattan asking rents, which had been rising sharply through the third quarter, flattened out somewhat in the fourth quarter, though they continued to run roughly 25 percent ahead of a year earlier. The only other market registering double-digit rent increases over the past year is Fairfield County, Connecticut.

Housing markets in the District continue to be mixed. Manhattan's co-op and condo market showed continued resilience in the fourth quarter. A major appraisal firm reports an outsized increase in the average transaction price in the fourth quarter but attributes this mainly to a shift in the mix of units to newer, high-end condos; this contact estimates that prices of comparable units are up roughly 6 percent from a year earlier in Manhattan, with unit sales up 3 percent from a year earlier. In contrast, on Long Island, both prices and sales continue to run below year-ago levels. More broadly, reports from Realtors across New York State indicate increasingly weak market conditions for single-family homes, with prices down roughly 10 percent from a year ago and unit sales down 15 percent.

Other Business Activity

A major New York City employment agency, specializing in office jobs, describes hiring activity as surprisingly brisk in December, which is usually a slow month; hiring demand remained strong from the legal industry and the financial sector--largely hedge funds and private equity firms. The supply of qualified office workers continues to be characterized as sparse.

New York State manufacturers report that business activity weakened somewhat as of early December, but note some improvement in recent weeks. However, contacts report some further pullback in hiring activity, as well as hiring plans; they also express considerably less optimism, in general, about the six month outlook than in recent months. Manufacturers report continued widespread escalation in prices paid and prices received--both current and expected. Overall, non-manufacturing firms in the District report little or no growth in the level of business activity and express considerably less optimism about the general outlook than a few months ago. Unlike manufacturers, though, these contacts report a pickup in hiring and expect their employment levels to increase, on balance, in the first half of 2008.

Financial Developments

Small- to medium-sized banks report falling demand for all types of loans--particularly in the residential mortgage category, where more than four in five respondents indicate declining demand. There were also fairly widespread declines in demand for consumer loans, and in refinancing activity. For all loan categories, respondents indicate further tightening of credit standards. No bankers reported eased standards in any loan category. Overall, the extent of tightening was comparable to the prior (November 2007) survey. Consistent with weakening demand, bankers report a decline in the spreads of loan rates over cost of funds for all types of loans. Again, the decline was most pronounced in the residential mortgage category. Bankers also reported a decrease in the average deposit rate. Finally, respondents indicate increases in delinquencies across all loan categories--most notably for consumer loans, where

increases are reported to be more widespread than at any time in at least 13 years.

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Third District--Philadelphia

Business activity increased slightly in the Third District in December, although the real estate sector continued to be soft. Manufacturers, on balance, reported modest increases in new orders and shipments. Retailers generally reported small increases in sales for the holiday shopping period compared with the previous year. Auto sales showed little change from November to December and remained below the level of a year ago. Overall bank lending has been rising slowly, with better growth in business lending than in consumer and real estate lending. Residential real estate sales remained well below the level of this time last year. Commercial building leasing and sales have slowed. Service-sector firms generally indicated that their business has been expanding steadily, although employment agencies and temporary help firms reported slower growth in demand as 2007 came to an end. Firms reporting on labor costs generally noted a continuing trend of moderate increase in wages, but they continued to report large increases in health care benefits costs. Reports of increases in input costs and output prices were about as prevalent in December as they were in November, although more firms indicated that they were raising the prices of their own goods and services to cover higher motor fuel and energy costs.

Third District firms generally foresee continued growth, but most of those contacted for this report have scaled back their forecasts for 2008. Manufacturers, on balance, expect increases in demand for their products, but the number forecasting increases has declined since a month ago. Retailers generally expect slow sales growth during the year. However, auto dealers generally expect sales in 2008 to be somewhat less than sales in 2007. Bankers anticipate slow expansion in overall lending, with gains coming largely from business lending; they expect little expansion in consumer and real estate lending. Residential real estate agents expect sales to remain sluggish. Contacts in commercial real estate anticipate slower leasing and purchasing activity as markets adjust to reduced credit availability. Service-sector companies generally forecast growth this year to be about as strong as it was last year, but employment agencies expect hiring to be less active, at least in the early part of the year.

Manufacturing

Third District manufacturers, on balance, reported rising shipments and new orders in December compared with November. Around one-third of the manufacturers surveyed noted increases and around one-fifth noted decreases. Increased demand for their products was reported by commercial printers and by producers of food products, textiles, apparel, and instruments. Decreased demand was noted by producers of lumber products, construction materials, and metals. For the Third District manufacturing sector as a whole, order backlogs edged down from November to December. Typical comments from Third District manufacturers are that business related to the housing market is “very difficult,” but “there has been an increase in export opportunities” and “reduced import pressure from China.”

The outlook in the Third District manufacturing sector is positive, although the level of optimism has declined somewhat recently. Just under one-third of the firms contacted for this report expect increases in new orders and shipments over the next six months, and nearly one-fourth expect decreases. Despite the modest outlook, Third District manufacturing firms have boosted capital spending plans recently, on balance. Around one-third of the firms in the region plan to increase capital spending during the next six months, and around one-tenth expect to reduce capital spending.

Retail

Retailers in the Third District generally reported modest increases in sales for the 2007 holiday shopping period compared with the prior year. Sales of electronic items rose strongly, but sales of most other lines of merchandise showed little or no growth year-over-year. Sales of apparel fell short of most retailers' expectations, especially at some apparel specialty stores, for which the season was, according to several contacts "a real disappointment." According to store executives in the District price markdowns were "up a little bit" from last year, but inventory "has been controlled." Consequently, most stores plan to feature full-price merchandise through the rest of the winter. Third District retail contacts' outlook for 2008 is cautious. Most expect consumers to restrain spending generally and postpone purchases of big-ticket items in response to uncertainties about housing and overall economic conditions.

Auto dealers in the region generally reported slow sales in December, with most indicating that sales were even with or slightly below the November sales rate. Most dealers indicated that inventories have been fairly steady at manageable levels. Dealers in the region expect sales in 2008 to be below sales in 2007, on balance, although some import dealers expect moderate increases.

Finance

Total outstanding loans at Third District banks rose somewhat in December. Commercial bank lending officers contacted for this report generally indicated, as they have for the past several months, that the increase was stronger for commercial and industrial loans, mainly to middle-market firms, than for personal and real estate loans. However, several bankers said that growth in commercial and industrial lending largely continues to fund leveraged buyouts and mergers and acquisitions, with smaller gains in lending to support capital expenditures. Most bank contacts indicated that asset quality overall weakened over the latter half of 2007. Further, they indicated that chargeoffs in 2007 were five to 10 basis points higher than had been projected. Contacts reported that attracting deposits is "an issue," as competition among banks in the District has been strong. Looking ahead, bankers generally foresee slow growth in overall lending. They continue to expect little improvement in mortgage and personal lending, but most expect growth in business lending to continue to move up at around its current pace.

Investment companies reported strong cash inflows at year-end that boosted outstanding balances in equity, bond, and money market funds. Investment managers reported continuing volatility and some difficulty in trading in fixed-income markets.

Real Estate and Construction

Residential real estate activity in the Third District remained well below its pace of a year ago in the final months of 2007. Residential real estate agents said there were some signs of increased interest among potential buyers, but they do not expect a broad recovery to get under way soon. Commercial real estate contacts said there has been an increase in caution among investors, brokers, and property owners, leading to reduced leasing and sales. Contacts said the decline in leverage in commercial real estate financing has put a brake on building price increases.

Services

Business services firms generally reported steady growth in the final months of 2007, and most of the firms contacted for this report said they expect their sales and revenue for the year as a whole to be close to their forecasts. However, employment agencies and temporary help firms reported that demand for workers has not been growing as strongly recently as it had been through most of 2007. Most of the service-sector firms polled in December expect business to continue to expand in 2008 at about the pace set in 2007, although one large business services firm expects “a rough patch” because its client companies are delaying expansion in response to volatility in credit markets. Employment agencies expect hiring in the Third District to be somewhat less robust in the first quarter of 2008 than it was through most of 2007.

Prices and Wages

Reports of increases in input costs and output prices from Third District business contacts were about as prevalent in December as they were in November. Manufacturers noted increases in prices of food products, chemicals, metals, and machinery. Retailers indicated that their cost of goods rose in 2007, and they expect further, possibly larger increases in 2008. Firms in a wide range of industries continued to report high motor fuel and energy costs, and an increasing number of firms have raised the prices of their own products and services to cover the higher costs. Most of the firms reporting on employment costs in December indicated that wage increases remained moderate. Firms reporting on health care costs continued to mention large increases, and the number of firms reducing health care benefit options and raising employee contributions appears to be growing.

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Fourth District--Cleveland

Economic activity in the Fourth District expanded at a slow pace since mid November. Overall, manufacturing output remained steady though production at auto assembly plants declined. Residential builders reported new home sales were very weak while commercial contractors experienced an increase in their backlogs. Sales by District retailers were below plan. Demand for business and consumer loans was flat to declining and the number of delinquencies rose slightly. Reports on credit quality showed some deterioration, especially on the consumer side. Oil and gas production was steady to increasing, although drilling activity fell slightly. And truck freight volume was characterized as soft.

Employment levels across the District were largely unchanged. Staffing firms reported a modest increase in the number of job openings while the number of job seekers was flat. Demand was greatest in the health care and nonprofit sectors. Little upward pressure on wages was noted. Manufacturers reported increased costs for raw materials. Several producers reported raising their prices in response to rising input costs and others are planning to increase prices early in 2008.

Manufacturing

In general, manufacturing output has been steady over the past six weeks. Reports of increased production were offset by slowdowns attributed to seasonal adjustments or exposure to residential construction. On a year-over-year basis, reports were evenly split between increasing and declining production. Looking forward, almost all of our contacts anticipate output to remain at current levels or to increase.

Steel shipments were mixed. Half of our respondents said volumes were higher than expected; others cited lower volumes but attributed them to seasonal factors. The strongest end markets for steel included transportation, energy, and defense. Auto assembly plants within the District reported lower production numbers during November. Foreign nameplates and their domestic counterparts shared in the decrease. In terms of year-over-year comparisons, auto production was flat.

Reports on capacity utilization were mixed. Further, capital spending remains on plan with several producers saying they expect to increase expenditures during 2008. Reasons cited include increased productivity, new product development, and equipment replacement. Almost half of our respondents reported increasing prices for raw materials. Further, several told us that they have raised their prices during the past six weeks, and more than half said they have plans to raise prices in the near future. Most manufacturers also expect modest inflationary pressures to continue. On balance, there was little change in employment levels; however, several contacts said they plan to resume hiring in 2008. Little wage pressure was reported.

Real Estate

Most home builders reported very weak sales over the past six weeks. However, one contractor in the central part of the District noted that construction was above projections for November. Sales continue to be down year-over-year. Looking forward, builders believe activity in 2008 will mirror that of 2007. Home prices were steady, and half of our respondents told us that they continue to use discounting as a means of selling homes. On balance, material costs were stable. Two contractors told us that they have reduced the size of their workforces since our last report. Further, additional layoffs are possible if business continues to deteriorate. Concerns about labor costs were limited to increases for health care coverage.

Commercial contractors reported that business has been stable to increasing since our last report and on a year-over-year basis. Looking forward, nearly all contractors said that they expect activity in 2008 will be at a higher level than in 2007. Further, all respondents noted a pickup in backlogs. For the most part, material costs were stable. Workforce levels remain

largely unchanged; however, a few builders said they may add workers in 2008. No wage pressures were reported.

Consumer Spending

Overall sales by District retailers were flat to declining during November, with most retailers expecting sales to remain flat during the first quarter of 2008. However, one large discount chain reported rising sales with the expectation that the increases will persist during the next few months. Auto dealers reported a decline in sales of new and used vehicles during the past six weeks, and they anticipate flat to lower sales in the coming months. Vendor prices were steady to increasing during the past six weeks; increases were largely limited to food products. Employment levels were adjusted to meet seasonal demands. And capital expenditures remain as projected with little change anticipated during 2008.

Banking

A majority of bankers described business and consumer lending as flat to declining during the past six weeks. Any increases on the business side were generally limited to commercial real estate. The residential mortgage market remains very sluggish with little expectation for any improvement during the next six months. Further, most respondents characterized auto and home equity loan demand as slow. Almost all bankers reported no change to slight growth in core deposits. Net margins were either stable or had narrowed. In general, credit quality for business customers was stable while consumer quality deteriorated. Half of our respondents reported an increase in delinquencies, especially for real estate loans and home equity credit. On balance, employment levels were stable. Two bankers reported some wage pressures which they attributed to difficulty in recruiting qualified workers.

Energy

Oil and gas production has been steady to increasing over the past six weeks, although several producers noted a slight decline in drilling activity due to seasonal factors. Reports on coal production were mixed. Little movement was seen in prices received for coal, oil and natural gas and in the cost of materials and equipment. In general, capital expenditures remain on plan. Looking forward, half of our respondents reported that they plan to increase capital spending during the next few months. Employment levels were largely unchanged. Most producers reported some wage pressures, especially among experienced workers.

Transportation

Trucking executives characterized freight volume as soft over the past six weeks. Looking forward, they anticipate 2008 will be a challenging year with little rebound in business activity until the second quarter at the earliest. Shipping prices remain very competitive while fuel prices continue to rise; however, most carriers are able to recover some of the increased cost through surcharges. Capital expenditures were also characterized as soft with little improvement expected in the upcoming months. Carriers told us that they are unwilling to spend in the current economic environment. On net, employment levels continue to decline slightly due to layoffs, and little wage pressure was reported.

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Fifth District--Richmond

The pace of economic activity in the Fifth District slowed further in recent weeks, behind weaker readings on retail sales, manufacturing, and housing. District merchants reported generally lackluster holiday sales, while revenue growth at service firms softened. Additionally, activity at District factories pulled back with declines in shipments and new orders. In the real estate sector, housing activity continued to slump in December and early January as home sales remained sluggish and inventory levels climbed higher. In the commercial segment, leasing activity was down somewhat and rents were flat. Adding to the softer tone, demand for home mortgages continued to wane, though assessments of commercial lending activity were mixed. There were some bright spots, however. Tourist activity picked up since our last report and rainfall in late December and early January improved conditions at some District farms. Turning to labor markets, the pace of hiring moderated in recent weeks, though wage growth was steady. Price measures were up across the board and contacts continued to voice concerns over rising energy costs.

Retail

According to Fifth District retailers, sales remained weak and hiring activity continued to decline in recent weeks. Reports on the holiday shopping season were generally downbeat. A department store manager in central North Carolina told us that extended store hours just before Christmas had little impact on sales. Similarly, a large home improvement retail chain said same store sales were below year-ago levels, due in large part to continued softness in housing. In addition, a sporting goods retailer in West Virginia said holiday sales at his store were slower than anticipated. Reports on sales of automobiles and light trucks were mixed. Dealers in Virginia Beach, Va., and Charleston, W.Va., told us that sales fell sharply in recent weeks, while a contact in the Washington, D.C., area said activity at his dealership was "very busy." Retail wages grew at a faster clip in December, though retailers continued to trim payrolls. A department store executive in Maryland said that regular employees' hours had been "cut to the minimum level allowed for employee benefits," while a store manager in Virginia Beach, Va., noted that "hours have been cut to the bone." Retail prices were up in recent weeks behind sharp increases in food prices.

Services

Contacts at services firms reported slower revenue growth since our last report, which they attributed to a growing sense of uncertainty among their customers. An executive at a Baltimore, Md., financial services firm said his clients had become increasingly "hesitant" because of mounting concerns about the economy, while a contact at an advertising and web services company in northern Virginia commented that his firm "didn't need a report to know that consumer confidence is down because we feel it everyday." Hiring at services firms slowed in recent weeks, particularly at information technology firms, while average wages continued to grow at a healthy pace, and prices edged higher.

Manufacturing

District manufacturers reported that activity pulled back in December as shipments and new orders moved lower. Product demand was particularly weak at electronics, food, lumber, paper, rubber and plastics and building supply firms. A plastics producer in North Carolina

told us, “our activity level has cooled as of late,” while a manufacturer of stone products in Virginia said the prolonged weakness in housing continued to curb customer demand. Hiring activity at District factories was limited in the final month of 2007, though wage growth was steady. Concerns about rising energy costs were more widespread in recent weeks as both raw materials and finished good prices grew more rapidly since our last report.

Finance

Demand for home mortgages generally continued to taper off, though scattered reports of increased lending activity emerged in recent weeks. Contacts in Hilton Head and Greenville, S.C., said that lending activity slowed in December and early January, while a contact in Charlotte, N.C., reported a pullback in demand for home equity loans. Assessments from other areas were somewhat brighter, however. A Washington, D.C., mortgage lender, for example, told us, “loan activity has picked up recently and this December was actually busier than last year.” In addition, a Charlotte, N.C., contact reported an uptick in refinancing activity as clients continued to switch from adjustable to fixed rate products. Interest rates on mortgages edged lower and credit standards tightened a bit further since our last report. A Raleigh, N.C., contact told us that more documentation was being required for new mortgages, and a Charlottesville, Va., lender reported that his firm was requiring higher minimum credit scores. Turning to the commercial side, reports on lending activity were mixed. A contact from Charlottesville, Va., reported that loan demand had increased over the last six weeks, a loan officer covering Virginia and the Carolinas reported that demand had been steady since November, while a lender in Charleston, W.Va., said business had been “pretty slow.”

Real Estate

Slowing activity in the Fifth District’s housing sector continued to weigh on the region’s economy in recent weeks. Residential real estate contacts continued to report generally sluggish home sales in December and early January. A Realtor in the Washington, D.C., area noted “slower sales” during the final month of 2007, while an agent in Fredericksburg, Va., said business had been “very quiet.” Inventory levels continued to swell. A contact in Richmond, Va., told us some builders were now offering ‘rent-to-own’ options in new, high-end neighborhoods. And a contact in Hilton Head, S.C., said builders in that area were “just about giving homes away in order to get them off the books.” Reports on home prices were mixed, however. Sales prices were down slightly in Greensboro, N.C., relatively unchanged in northern Virginia, and a bit higher in Asheville, N.C., and Greenville, S.C. A number of contacts noted that their outlook for the next six months was more encouraging. Realtors in several markets expected “some pickup” in activity during the spring.

Outside of residential markets, commercial real estate conditions softened in December and early January. Leasing activity moderated in recent weeks. An agent in Washington, D.C., said the demand for office space had begun to “drop off,” while a contact in Charlotte, N.C., told us the pace of leasing activity had “slowed back down to the speed limit.” Reports on vacancy rates were mixed. Rates were generally unchanged in Charleston, W.Va., and Raleigh, N.C., but slightly higher in the northern Virginia suburbs. Rental rates were flat in most markets. A contact in Charlotte, N.C., however, told us rents in the city’s central business district were up twenty percent from a year earlier. Construction activity pulled back

a bit since our last report with “few projects” in the pipeline. Additionally, agents in Charlotte, N.C., and in Washington, D.C., reported difficulty in obtaining financing as banks tightened credit standards on commercial real estate loans.

Tourism

Assessments of tourist activity were generally upbeat in recent weeks. Contacts in coastal areas told us that holiday bookings were mostly in line with year-ago levels. Reports from mountain resorts were also positive. A manager at a ski resort in Virginia told us that his hotel was “booked to capacity” during the week between Christmas and New Year’s. Similarly, a contact at a ski resort in West Virginia reported an uptick in holiday traffic at his lodge, crediting the increase to a stretch of accommodating weather.

Temporary Employment

Fifth District temporary employment agents continued to report generally strong demand for workers in recent weeks. Contacts in Raleigh, N.C., and Richmond, Va., told us that labor markets in those areas remained firm, driving demand for temporary workers, while an agent in Hagerstown, Md., said demand had waned a bit since our last report. Warehouse, customer service, sales, and general computer skills were among the most highly sought over the past six weeks.

Agriculture

Moderate rainfall in late December and early January was insufficient to alleviate drought conditions across much of the Fifth District. There were pockets of improvement, however. Contacts said recent rains helped improve winter wheat conditions in Maryland and boosted pasture conditions in Virginia, allowing some livestock producers to cut back on supplemental feeding. Despite the less-than-ideal conditions, small grain plantings in South Carolina were completed on schedule.

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Sixth District--Atlanta

Reports from contacts for late November through December continued to paint a mixed picture of economic activity in the Sixth District. Holiday sales were described as similar to year-ago levels, while vehicle sales remained weak. In contrast, contacts reported that tourism-related spending continued to be healthy through the end of the year. Residential real estate activity remained weak in December, although additional discounting by homebuilders appeared to help move new homes in a few areas. Manufacturing varied by industry, with defense, steel, and energy-related production reporting positive activity, while construction-related goods production remained weak. Freight traffic was below year-ago levels. Reduced credit availability and stricter lending standards for real estate loans continued to be reported among banking contacts. Demand for skilled workers was strong through the end of the year, according to most reports. Food, petrochemical and energy-related input prices continued to increase. The drought persisted in the Southeast despite much needed rainfall in late December.

Consumer Spending and Tourism

Most retail contacts reported that holiday sales were lackluster and came in similar to year-ago levels. Electronics and luxury items sold well across much of the District. Discounting was widespread, particularly among apparel retailers, and their end-of-year inventories were higher than expected. However, some Florida merchants noted that they benefited from increased sales to foreign tourists.

In general, auto dealers reported that late November and December vehicle sales were below year-ago levels, while inventories remained above average. Some reports noted that sales to both retail and commercial customers were off sharply for domestic brand dealers, and foreign brands were turning to fleet sales to offset weaker retail demand.

Reports concerning tourism continued to be quite positive. Florida businesses that serve winter visitors reported strong activity, and upscale hotels noted increased occupancy. Foreign arrivals boosted the state's overall performance. European and Canadian visitor numbers were up, and Orlando International Airport was on pace for a record year for passenger traffic. Major college football games and a large convention stimulated New Orleans' hospitality industry.

Real Estate

Homebuilders and Realtors reported that new and existing home sales remained well below year-ago levels during December in most areas, and inventories remained high. Builders in several markets cut asking prices for new homes and this appeared to improve the pace of sales. Residential construction was significantly below year-ago levels across the District, and builders and Realtors reported that weak conditions are expected to persist during the first quarter.

Contacts indicated that conditions in commercial markets in the District were largely unchanged from the last report, with activity described as generally flat in most areas. Developers continued to note a decline in the backlogs of construction projects.

Manufacturing and Transportation

Manufacturing activity varied by industry. Pulp and paper producers reported strong demand, particularly from China. Contacts observed that the steel industry was performing well, and defense and energy-related manufacturers also reported strong activity. However, producers of residential housing-related goods continued to note very weak demand. Reports indicated that many District manufacturing firms in several industries were expanding export activity.

Freight volumes in late November and December continued to weaken compared with year-ago levels. Trucking contacts noted disappointing volumes of retail and housing-related shipments. Rail companies reported lower deliveries of forest products, motor vehicles, and inter-modal cargoes. Domestic airborne shipments were off from a year earlier as well.

Banking and Finance

Financial industry contacts reported reduced credit availability and stricter lending standards for real estate loans to homebuilders and builders. Earnings at some banks were reportedly

under pressure in the fourth quarter, partly because of the greatly reduced volume of real estate lending. In addition, loan loss provisions were rising because of anticipated increases in mortgage delinquencies and defaults. More stringent standards and closer scrutiny of applications were also noted in the commercial real estate loan market. Credit card lending was a notable exception to the general tightening in credit standards.

Employment and Prices

The demand for workers in some sectors continued to be quite strong through the end of the year. Steady demand was reported for workers in the healthcare, insurance, and energy sectors, while engineers, particularly in petrochemical fields, were in high demand. Hospitality workers were said to be hard to find in areas experiencing strong tourism activity. Housing-related industries continued to trim payrolls.

Food, petrochemical and energy-related input prices continued to increase, according to most reports. Firms producing fertilizer, chemicals, and plastics noted increasing input prices. Delivery costs for most products were reportedly up because of higher fuel costs. Some firms mentioned rising metal costs, especially nickel and steel. Input costs continue to increase for goods originating in Europe or Japan because of the lower value of the dollar. Local framing lumber and panel producers reported weak prices.

Agriculture and Natural Resources

Rains during December brought short-term relief to drought-stricken areas in the District, but growers' outlook remained uncertain at year-end. Planters and ranchers may reduce activity to limit losses because of the anticipation of higher irrigation costs. Florida officials estimated that if the current drought persists, the state's agriculture sector could sustain losses of up to \$1 billion. Tennessee livestock producers recently reported that a late spring freeze and the subsequent drought during 2007 also led to a substantial loss of revenue.

Gulf Coast crude oil inventories declined further in December and reached their lowest level in three years. Production began at a large new platform, located off the coast of Louisiana. This facility is expected to produce up to 200,000 barrels of oil and 180 million cubic feet of natural gas per day during 2008.

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Seventh District--Chicago

Economic activity in the Seventh District continued to expand at a slow pace in December and early January. Consumer spending was mixed, and business spending plans were mostly unchanged. On balance, labor market conditions softened slightly, though they continued to vary by industry and location. Residential construction continued to decline, and nonresidential construction showed signs of slowing. Modest expansion continued in manufacturing, with export-oriented businesses continuing to do very well. Credit standards tightened further, but business lending remained strong. Material cost pressures increased from the previous period, while wage pressures declined. Farmers planned to plant more soybeans and less corn this spring; and soybean and corn prices both continued to move

higher.

Consumer Spending

Consumer spending continued to be mixed, with slower retail sales in some areas of the District and slight increases in others. Retailers attributed weakness in sales to the sluggish housing market and rising energy prices. Sales of luxury items, winter accessories, and consumer entertainment goods performed well, while consumer electronics, toys, and clothing sales were weaker. Auto dealers in the District reported mixed results and thought that many consumers were continuing to delay purchases in anticipation of lower prices. That said, they also reported that end-of-year manufacturer close-out offers and incentives boosted sales of passenger cars and crossovers. Vehicle inventories continued to decline to more comfortable levels. Tourism activity declined in December with a slight rebound in early January; one contact noted that leisure travel was weaker than usual because of inclement weather and cost-conscious consumers.

Business spending

Overall, the pace of business spending was little changed from the last reporting period. A manufacturing contact reported delaying capital spending and a bank reported that tightening profit margins and concerns over future losses from real estate loans would likely slow their pace of branch expansion in the coming year. Labor market conditions softened slightly in the District. The manufacturing and construction industries showed the largest declines in employment, and some weakness was reported in retail trade and financial services. However, the demand for skilled and professional workers remained strong. Furthermore, with the exception of the mortgage industry, staffing firms reported stability in billable hours relative to the previous reporting period. They also noted, however, that their clients' uncertainty about economic conditions in the coming year was limiting the long-term demand for their services.

Construction and Real Estate

Residential construction and home sales in the District declined in December and early January. Contacts continued to report tightening of credit availability. Construction of spec homes and showroom traffic also continued to slow, and cancellations of residential construction projects edged up in Illinois, Wisconsin, and Michigan. Residential rents came under pressure as homes were put up for rent after failing to sell; some developers also were reported to be considering converting existing construction projects to rental properties. However, an Illinois contact reported that housing demand had increased slightly for low-tier value homes and that in the mid-tier market, home prices had leveled out and time-on-the-market had stabilized. Still, contacts projected that building conditions would be weak into 2009. Nonresidential development and construction in the District slowed from the previous reporting period. Nonresidential rents were steady or down slightly. In addition, there were reports of both cancelled and delayed projects and an increase in vacant retail space, a segment of the market that had been strong recently. In contrast, contacts reported some strength remained in infrastructure, commercial and industrial construction.

Manufacturing

Manufacturing growth was relatively stable compared with the previous reporting period, and

manufacturers remained upbeat about prospects for 2008. Manufacturers in several industries reported continuing strength in the demand for exports and that the falling dollar had enabled them to increase their prices. Domestic steel production continued to move ahead, supported in large part by a moderation in imports. Demand for aircraft and energy extraction and mining equipment continued to be robust, but demand fell further for manufacturers with strong ties to residential housing. Automakers reported that light vehicle sales were a bit better than expected, although there was some further weakening in the demand for light trucks. Previously announced layoffs at assembly plants were expected to begin in January, and these likely would have repercussions in employment for parts suppliers.

Banking and Finance

Credit market conditions remained tight in December with some reported improvement in early January. Volatility remained a concern and lending in the real estate market remained weak. Mortgage originations and home equity loans and lines of credit declined as tighter lending guidelines went into effect; however, refinancing activity increased moderately. Contacts reported that defaults and delinquencies on mortgages, credit cards, and auto loans in the District were not deteriorating. They also noted that lenders were developing methods to improve upon or implement more risk-based pricing as a way to insure better loan quality going forward. Business loan demand remained strong despite elevated borrowing costs and tighter credit standards. However, uncertainty concerning economic conditions in the coming year limited the demand for long-term borrowing. Large commercial banks reported downward pressure on profits as competition held up deposit rates and internal financing costs remained high. In addition, bankers expressed concern about how further declines in real estate prices combined with a slowing economy might affect loan quality and profit margins.

Prices and Costs

Manufacturers indicated that input costs rose from the previous reporting period, particularly for inputs affected by the higher price for oil. Contacts generally reported an inability to pass on cost increases; notable exceptions were in export-related industries and in retail food products, where higher wholesale prices were being passed on to consumers. The slowdown in construction led to further declines in wallboard prices. There were reports of increases in prices for ready-mix concrete and structural steel; but contacts speculated that these might be temporary, if, for example, commercial building activity continued to slow. Wage pressures remained limited outside of a few sectors that continue to experience shortages of skilled labor. That said, contacts cited union wage increases in the construction industry as a factor boosting building costs for new homes and a staffing firm reported that their clients were willing to accept higher prices in exchange for greater flexibility in the duration of employment contracts.

Agriculture

During the reporting period, in nominal terms, soybean prices rose to record levels and corn prices reached their highest levels since 1996. District farmers currently anticipate planting more acres of soybean and fewer acres of corn this spring, but were structuring their orders with suppliers in ways that will allow easier acreage adjustments based on future price movements. Hog prices rebounded, but were still below the prices of last year. In contrast,

milk and cattle prices dipped, but remained above the prices of a year ago. Delivery dates on farm tractor or combine orders were difficult to book for 2008. Farmland rents moved higher along with commodity prices.

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Eighth District--St. Louis

Economic activity in the Eighth District expanded modestly since our previous report. Although the services sector continued to grow, reports from manufacturing contacts were mixed. Residential real estate sales and construction continued to soften throughout the District, but commercial real estate market conditions remained positive. Retail sales increased in December 2007 compared with the same month in 2006; auto sales were flat over the same period. Total loans at a sample of small and mid-sized District banks increased slightly from mid-September to mid-December.

Manufacturing and Other Business Activity

A larger number of manufacturers reported plans to open plants and expand operations, compared with those planning to close plants and reduce operations. However, job losses from closings were greater than the announced job gains from expansions. Firms in the food manufacturing industry reported plans to open new facilities, expand operations, and hire workers. Firms in the electrical equipment manufacturing and sanitary paper product manufacturing industries reported plans to hire additional workers. In contrast, contacts in the motor vehicle parts manufacturing and furniture manufacturing industries reported plans to lay off workers and decrease operations.

The District's services sector continued to expand in most areas; contacts in the financial services industry announced plans to lay off workers, however. General and big box retailers reported sales increases in December 2007 compared with the same month in 2006. Auto sales were flat over the same period.

Real Estate and Construction

Home sales continued to decline throughout the Eighth District. Compared with the same period in 2006, November 2007 year-to-date home sales were down 14 percent in Memphis, 8 percent in St. Louis, 5 percent in Little Rock, and 2 percent in Louisville. Residential construction also declined throughout the District. November 2007 year-to-date single-family housing permits fell in nearly all District metro areas compared with the same period in 2006. Permits declined 32 percent in Memphis, 18 percent in St. Louis, 23 percent in Little Rock, and 6 percent in Louisville.

Commercial real estate market conditions were mostly positive at the close of 2007. A contact in Louisville reported that the downtown Class A office vacancy rate was the lowest in 5 years. Commercial construction activity at year-end 2007 was mostly solid throughout the Eighth District, but some contacts were concerned that the financial woes in the residential market may affect commercial projects in the year ahead. Contacts in Evansville, Indiana, reported significant commercial activity in the area but noted tighter underwriting on

loans and anticipate a slight slowdown after the first quarter. A contact in southwest Arkansas reported that commercial construction continued to grow. Although November 2007 year-to-date new commercial construction permits in Little Rock increased more than twofold from the same time in 2006, contacts reported that financing commercial projects in central and northwest Arkansas was becoming more difficult.

Banking and Finance

Total loans outstanding at a sample of small and mid-sized District banks increased 0.6 percent in the three-month period from mid-September to mid-December. Real estate lending, which accounted for 74.5 percent of total loans, decreased 0.3 percent. Commercial and industrial loans, accounting for 16.7 percent of total loans, increased 1.4 percent. Loans to individuals, accounting for 4.4 percent of loans, increased 4.9 percent. All other loans, which accounted for 4.4 percent of total loans, increased 8.1 percent. Over the same period, total deposits at these banks decreased 2.3 percent.

Agriculture and Natural Resources

As of mid-December, year-to-date bales of cotton ginned (separated from the seed) in District states were down over the same period in 2006; bales ginned were down 24 percent in Arkansas, 37 percent in Mississippi, 13 percent in Missouri, and 50 percent in Tennessee. Total commercial red meat production increased by 8 percent in November over year-earlier levels, but decreased by 4 percent from October. In November, the total weight of young chickens slaughtered was 3 percent higher than the previous November, but 12 percent lower than October. Total coal production in District states for December was 4 percent higher than year-earlier levels, and total coal production for 2007 increased by 3 percent over 2006 levels.

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Ninth District--Minneapolis

The Ninth District economy grew modestly since the last report. Growth was noted in consumer spending, tourism, services, commercial construction and real estate, energy, mining and agriculture. Manufacturing was mixed. Residential construction and real estate continued to weaken. Labor markets were stable with continued tightness in some areas. Overall wage increases were moderate, while significant price increases were noted for fuels, fertilizer and phosphates, and lumber prices decreased.

Consumer Spending and Tourism

Consumer spending during the holidays was up slightly. A major Minneapolis-based retailer expects flat same-store sales in December compared with a year earlier. After an outstanding November, sales were up slightly in December at a North Dakota mall. A mall manager in Montana reported that December sales were flat to slightly down compared with a year ago; jewelry sales were particularly soft. At another Montana mall, traffic was down slightly in December compared with a year ago, but gift card sales were up substantially. However, a major electronics retailer based in Minnesota reported strong holiday shopping.

Recent truck and car sales were up in North Dakota due in part to strength in the agricultural sector. An increase in the number of Canadians buying cars in Montana was noted by dealers near the border.

Solid snowfall in many parts of the District helped spur winter tourism activity. Tourism officials in northwestern Wisconsin and northern Minnesota noted strong cross-country skiing and snowmobiling activity. A ski resort in northeastern Minnesota reported one of its busiest Decembers ever. Tourism was up slightly in the Upper Peninsula of Michigan; however, it suffered from increased competition due to good snow conditions in Minnesota and Wisconsin. In contrast, a lack of snowfall in western South Dakota has dampened snowmobiling and led to late openings at ski resorts.

Services

Service firms reported some growth. Early winter storms increased demand for auto repair services. An executive search firm noted strong new business in December. Contacts in the medical services area reported stable activity. A contact at an automation company reported slow activity in December.

Construction and Real Estate

Commercial construction activity grew at a slower pace. December nonresidential permits were down slightly in value from the previous year in Sioux Falls, S.D., but up dramatically in Fargo, N.D. A number of health care providers in the Minneapolis-St. Paul area announced ambitious expansion plans, including a \$300 million expansion on several campuses of a children's hospital. However, a survey of Minnesota commercial contractors showed that more than half expect a decrease in work in 2008. Residential construction continued its lull. The number of residential permits issued in November dropped 23 percent from the previous year in the Minneapolis-St. Paul area. In Sioux Falls, December residential construction was down slightly from last year's record level, while in Fargo the value of new homes permitted was down 60 percent.

Real estate market conditions were also split between the commercial and residential sectors. Commercial real estate firms in several District markets noted overall strength in the office and industrial segments, with retail vacancy up in some places. A recent informal survey of Minneapolis-St. Paul agents showed most were optimistic about revenues and profits for 2008, though some were concerned about tighter credit conditions. In contrast, residential markets experienced further doldrums. Pending home sales for the last three months of 2007 in the Minneapolis-St. Paul area were about 20 percent lower than their year-earlier level. However, the housing market remained strong in Sioux Falls, and Realtors in western Montana said activity there was steady.

Manufacturing

Manufacturing activity was mixed since the last report. A December survey of purchasing managers by Creighton University (Omaha, Neb.) indicated increased manufacturing activity in the Dakotas and decreased activity in Minnesota. Energy and defense-related manufacturers in the Dakotas reported solid activity in December. Across the District, food manufacturers were busy processing the robust District harvest. However, wood product

manufacturers reported decreased activity due to the slump in housing construction.

Energy and Mining

Activity in the energy and mining sectors increased since the last report. Strong oil and gas exploration and production continued in the District. Alternative energy projects, including wind, ethanol and biodiesel, were planned or under construction. Most mines continued to operate at near capacity, and some expansions were under way. A Montana mining official reported the highest level of exploration activity in years.

Agriculture

Robust agricultural conditions were reported across the District. Strong commodity prices and good moisture conditions bode well for the upcoming growing season. The U.S. Drought Monitor indicated that District moisture conditions improved since late November. Since the last report, the U.S. Department of Agriculture revised upward the estimated 2008 prices for several District agricultural commodities. Farmers were reporting some difficulty storing the huge fall harvest. The price of farmland in the District continued to increase.

Employment, Wages and Prices

Labor markets were stable with continued tightness in some areas. Bank directors noted a strong challenge finding qualified labor for skilled and unskilled jobs for companies in North and South Dakota. In South Dakota, a customer-service management firm was hiring an additional 300 workers and a health care plan company recently announced expansion plans that could add 200 jobs over the next three years. A concrete products company plans to break ground on a new plant in the spring that will add 200 jobs in Minnesota. In contrast, about 40 workers were laid off at a loan-processing facility in Montana. According to respondents to the recent St. Cloud (Minn.) Area Business Outlook Survey, 20 percent expect to hire more workers over the next six months, while 18 percent expect to decrease payrolls; in last year's survey, 34 percent expected increases and 8 percent anticipated decreases.

Overall increases in wages were moderate. According to the aforementioned St. Cloud survey, 49 percent of respondents expect employee compensation to increase over the next six months, about the same as last year's survey. Wages for District manufacturing workers were up 3.6 percent for the three-month period ended in November compared with a year earlier.

Significant price increases were noted for fuels, fertilizer and phosphates, while lumber prices decreased. Minnesota gasoline and Midwest diesel fuel prices were 78 cents per gallon higher than a year ago. Jet fuels were 45 percent higher than a year ago. In addition, prices for fertilizers and phosphates were up significantly from last year. Meanwhile, lumber prices continued to decrease.

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Tenth District--Kansas City

The Tenth District economy continued to expand modestly from mid-November through

year-end, although there was some softening in certain sectors. Manufacturing growth improved slightly, and District manufacturers were relatively upbeat. The energy and agriculture sectors remained robust. Holiday consumer spending was generally solid but slightly weaker than expected. Residential real estate prices and activity continued to decline, while commercial real estate softened slightly but remained relatively healthy. Wage pressures decreased throughout the District, but more firms reported that they expect to hire in the next three months. Price pressures were modest, but many sectors reported expectations of price increases over the near term.

Consumer Spending

Growth in consumer spending moderated since the previous survey but remained reasonably sound. Reports from retail stores were slightly weaker than in the previous survey, but half of respondents continued to report higher sales. More retailers reported less sales activity than planned. Some respondents mentioned poor weather conditions and power outages caused by ice storms as a cause of weaker retail activity. Few specific goods stood out as having particularly strong or weak sales, with the exception of relatively soft sales for gasoline and housing-related materials. Retail inventories were up from the previous month and from the previous year. Mall activity was flat year-over-year, but restaurants reported gains. Auto sales remained weak with a further build up in inventories. Fuel-efficient automobiles sold well relative to SUVs and large trucks. Auto dealers also suggested access to credit was more difficult. Hotel occupancy reports were well below those of the previous survey, but were more solid on a year-over-year basis.

Manufacturing

Manufacturing activity grew moderately in December and firms were generally upbeat about future activity, although there were some exceptions. The number of firms reporting increased production rose modestly from November, while reports of increases in shipments and new orders were smaller than in the previous month. New orders for exports increased from the previous year, and manufacturing employment growth was expansionary for the first time in six months. Inventory reductions continued, but moderated from November. Manufacturers were slightly more upbeat about increases in orders, shipments, and employment than in the previous survey, and their capital spending plans largely remained intact.

Real Estate and Construction

Residential real estate activity continued to decline in the most recent survey period, while the comparatively healthy commercial real estate market softened slightly. Home sales continued to weaken and prices were reported lower, with expectations for further decreases in the near term. Lower-priced homes and “bargains” were reported as selling much better than high-priced homes in most areas. Expectations for sales volume improved slightly from the previous survey, but remained generally negative. Inventories of unsold homes were higher in most markets from the previous month and were up uniformly year-over-year. Contacts reported a continuing decline in housing starts. Commercial real estate activity remained relatively solid, although there was some reduction in rent increases. Commercial sales and leasing activity and vacancy rates were stable, but absorption rates were lower.

Banking

Bankers reported somewhat weaker loan demand, slightly tighter credit standards, and a moderate decline in deposits since the last survey. Demand for residential real estate loans again fell moderately. Demand also declined slightly for commercial and industrial and consumer installment loans. Some banks reported a further tightening of credit standards for commercial real estate loans, although there were fewer such reports than in the previous survey. Overall loan quality was slightly weaker, and respondents expected some deterioration in loan quality over the next six months. Bank deposits declined moderately, led by declines in NOW and money market deposit accounts.

Energy

District energy activity continued to rise in December. The strongest growth in drilling occurred in Oklahoma and Colorado, while winter drilling restrictions may have seasonally slowed expansion activity in Wyoming. In contrast to previous surveys, industry contacts reported financing and costs as their biggest growth constraint. Although respondents continued to report labor shortages for technical and engineering positions, few still listed labor shortages as their chief operating constraint, and some firms reported that labor shortages were not as severe as six months ago. Expectations for future drilling activity remained positive.

Agriculture

Agricultural conditions varied with local precipitation in December. Respondents in regions receiving abundant fall moisture reported the winter wheat crop and pastures to be in good to excellent condition. In drier regions, contacts reported poor or fair wheat crop and pasture conditions. Strong demand and record low global inventories fueled a post-harvest surge in crop prices which supported farm income gains for crop producers. Livestock operators, however, saw profits disappear with higher feed costs. Farmland sales picked up after fall harvest and District contacts reported further gains in farmland values and cash rental rates. Higher income levels facilitated debt servicing and capital spending, especially for equipment upgrades.

Labor Market and Wages

Labor shortages decreased slightly since November, while there was a slight increase in the number of firms expecting to hire in the next three months. Much of the decrease in labor shortages was attributed to seasonal changes in the retail and hospitality industries. The number of hiring announcements significantly outpaced layoff announcements in the District, with most of these announcements coming from aerospace, energy, and manufacturing. Overall wage pressures declined, with only the energy sector reporting some continuing wage pressure.

Prices

Price pressures in the District remained generally contained, but expectations of future price pressures were elevated. Retail prices were stable month-over-month, but more retailers expected price increases in the next three months relative to the previous survey. There was little change in expectations for food costs from the previous survey, but some contacts continued to report higher food costs than in the recent past. Builders reported little change in

raw materials prices, although there was some expectation of price increases in coming months. The share of manufacturers reporting higher raw materials prices eased slightly, but a modestly larger share of firms expected higher prices in the next six months. Price pressures for finished manufactured goods eased from the previous period, but prices are still expected to be slightly higher in coming months. Most energy firms expected natural gas prices to increase in the near term, while most expected crude oil prices to remain unchanged or to decrease.

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Eleventh District--Dallas

The pace of economic activity in the Eleventh District continued to decelerate from mid-November to early January. The energy industry remained robust and lucrative, stimulating some manufacturing, construction and service-sector activity. But other activity has been dampened by slowing home construction, high energy prices and a general concern about disruptions to credit markets and the slowing U.S. economy.

Overall manufacturing activity has continued to soften, and retail sales are weaker. Service sector activity has slowed some but is still quite strong. Home construction continued to decline but commercial and multifamily activity is brisk. Financial service firms said consumer lending had slowed, but commercial lending was still quite strong. Agricultural conditions have been favorable.

Prices

High or rising input costs are squeezing margins for most industries. Still most contacts say competitive pressures are restraining selling price increases--at least for now. Oil prices were pushed up by a weakening dollar, geopolitical turmoil and a sharp decline in U.S. crude inventories. Rising oil prices boosted gasoline and natural gas prices. After significant increases earlier in 2007, price pressures eased for petrochemicals and plastics at year end, but the rise in energy prices is expected to push petrochemical prices up further. Aluminum prices remain high, and copper and steel prices have risen. Contacts say steel inventories are high but significant price increases are expected because of speculation that imports are dwindling. Strong demand and rising input costs continue to push up prices for agricultural commodities and food products.

Labor Market

Labor markets softened. Home builders are still reducing their workforce, and some manufacturers have eliminated shifts or reduced overtime. Still there are some shortages of skilled workers, particularly mechanics. Upward wage pressures remain, and some firms, particularly in the service sector, expressed concern about large increases in health-care costs.

Manufacturing

Factories reported continued weak sales of products for home building, including cement, glass, brick, lumber and metals--with demand for many products significantly below the

levels of a year ago. Producers who sell to national markets said sales to builders in Texas continued to be a bright spot, particularly in San Antonio and Austin. Some firms said sales remained solid for commercial construction, but others reported softening and apprehension that commercial building is slowing.

Food producers say domestic sales remain solid, and some have boosted sales by expanding to international markets. Demand for transportation manufacturing was strong, particularly to supply the chemicals and energy industries. Demand is also strong for government-funded emergency service vehicles.

Manufacturers of corrugated boxes reported a noticeable slowing in sales and higher inventory in December. Contacts say customers are reducing stock in anticipation of a slowing economy. These producers have become much less optimistic about the outlook since the last Beige Book. Sales of other paper products have also weakened, but sales volumes remained above year-ago levels. High-tech factories reported slowing activity since the last survey. Demand from Asia and India remained strong, but sales have been moderate to Western Europe and the United States.

Demand for plastics and petrochemicals has slowed. Weak sales to automobile manufacturers and homebuilders continued to dampen domestic activity, and there has been a recent softening of export demand for several important petrochemicals and plastics. Refinery utilization held at about 90 percent, which is typical for this time of year.

Retail Sales

Retail sales continued to weaken since the last report. Most retailers said sales were below year ago levels and placed most of the blame on high gasoline costs. Companies with national stores continue to say Texas sales are stronger than the rest of the country. Competitive pressure held selling prices down over the holiday season, but some retailers expressed serious concern that rising input costs already in the pipeline will force up selling prices in late spring. Overall automobile sales are weaker than a year ago, but sales of imports and hybrids remain strong. Dealers also reported strong demand for parts and service. Sticker prices have been stable, but there are many incentives in place, even for imports.

Services

Employment firms reported sluggish demand for temporary workers, but the need for direct hires remained strong. There is some demand from manufacturing, such as for plastics and railcar production, but demand is strongest for higher-skilled clerical workers to supply call centers, banks and credit collection agencies. There continues to be weak demand for entry-level low-skilled workers, particularly in manufacturing. Law firms say activity is still strong despite some slowing in merger and acquisition work. Litigation work continued to increase, and bankruptcy activity is up substantially at some firms. Accounting firms say activity continues to be as good as or slightly better than last year. With tax season approaching, respondents are optimistic about the outlook for activity, in part because of increased work necessary for the Texas margins tax--a corporate tax that is replacing the franchise tax and

will be collected for the first time in May 2008.

There has been some slowing of cargo volumes. Intermodal transportation of imports has fallen and has not been completely offset by exports. Overall rail shipments remain strong, with sizeable gains in grain shipments offsetting decreases in other commodities. Small parcel cargo and container trade values remain good, but contacts expect slightly slower growth this year. Demand for air travel remained moderately strong overall, but there are some hints of softness.

Construction and Real Estate

New and existing home sales continue to edge down and are well below a year ago. Traffic was slower than usual in December, and contacts say this suggests sales may weaken in January. Inventories of homes for sale are at relatively good levels, and prices remain generally steady. Although home starts continued to decline, contacts said this partly reflects a lack of cash flow for builders who have national operations. Apartment construction remains aggressive, and rents are rising. Demand for apartments has been boosted by customers who previously, but no longer, qualify for home mortgages. Contacts have few concerns about overbuilding, but say the outlook depends, in part, on when and if lenders slacken recently tighter credit standards on home buyers.

Office and industrial development activity continued at a strong pace. Rents continue to increase, but office demand has slowed recently. Credit market turmoil is still reducing investment activity, but there has been a little improvement since October calming market participants.

Financial Services

Demand for all types of consumer loans continues to soften, which contacts attribute to weak demand rather than tighter lending standards. Respondents say consumer demand has softened because of high energy costs and a general concern about economic slowing. Credit unions reported an increase in savings deposits that they consider a “flight to quality.” Other institutions, however, said that they were having difficulty raising enough deposits to fund loan growth, and one is considering using less traditional sources to obtain funds.

Regional commercial bank contacts say commercial real estate lending has remained strong and competitive. There has been some tightening of lending standards by banks. However, most borrowers who had used structured investment vehicles or the commercial mortgage backed securities market are no longer getting funding from those sources. Respondents say it is hard to price the value of assets with fewer transactions in these markets, and this is disrupting some deals.

Energy

Global demand for energy remained strong. The Texas rig count jumped sharply in November and December, led by natural gas drilling in the Barnett shale. Demand for oil services remains at very high levels, and there are few expectations that it will decline in the near future. International activity is also high. Drilling rigs and pressure pumping have some

overcapacity, and most other services are still experiencing only modest price pressure.

Agriculture

Domestic and global demand remained strong. Crop yields were steady. Weather conditions have been normal, and the outlook is positive for the spring.

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Twelfth District--San Francisco

Economic activity in the Twelfth District grew modestly during the survey period of December through the beginning of January. Upward price pressures were limited in general but significant for food and energy, and increases in labor compensation remained moderate on net. Contacts reported relatively weak consumer spending during the holiday season, and demand fell further for some services. Manufacturing activity was mixed across sectors but largely held steady on net. Agricultural producers saw continued solid growth in sales. Activity in residential real estate markets remained exceptionally weak, while demand for commercial real estate was high but eased further in some areas. Banking contacts reported tighter credit standards and little change in overall lending activity.

Wages and Prices

District contacts reported that price inflation was modest overall, although upward pressure remained strong for food and energy-intensive items. Final prices were largely stable to down for a variety of retail products, notably apparel and electronics. By contrast, increases in the costs of energy and assorted raw materials, such as titanium and stainless steel, created upward price pressures for providers of transportation services and selected manufactured goods. Prices rose further for various food products, especially dairy, corn, and wheat.

Wage increases were moderate on net, with contacts noting only small changes in overall labor costs. Upward wage pressures eased in some areas due to slight loosening in labor markets. However, upward pressures remained strong for engineers and various other types of skilled workers, and in some states, especially California, higher minimum wages effective at the start of 2008 are expected to raise the costs of low-skilled labor in the near term.

Retail Trade and Services

Reports on retail sales remained downbeat due to weak holiday spending. Although contacts in some areas noted modest growth relative to last year, holiday season sales generally were reported to be flat to down; contacts also pointed to early and aggressive price discounting, especially for apparel. Weakness was evident in all market segments during the survey period, including department stores, major retail chains, and smaller retail establishments. The main exception to weak holiday sales was consumer electronics products, for which sales grew briskly. Demand fell further for household items such as furniture and appliances. Sales of new automobiles remained sluggish, especially for domestic makes, and demand for used vehicles continued to fall from the high levels reached earlier in 2007.

Demand growth eased for service providers on net. Growth remained brisk for providers of health-care services. However, sales weakened further for advertising agencies and providers of media services due to weak demand from the automotive and home-furnishings sectors, and providers of professional services such as accounting and consulting plan to reduce staff due to falling demand. Providers of real estate services such as title insurance continued to slash jobs. Travel and tourism activity was at high levels in Hawaii and Southern California, but indicators such as visitor counts and hotel occupancies remained slightly below their year-earlier values.

Manufacturing

Demand for products manufactured in the District generally held steady during the survey period of December through the beginning of January. Production activity and new orders remained robust for makers of commercial aircraft and their suppliers. Sales of information technology products continued on a moderate growth path, with high levels of capacity utilization and generally balanced inventories reported. However, a maker of industrial equipment reported “tepid” activity on net, and demand for wood products continued to fall, resulting in scattered shutdowns and closures for lumber mills in the Pacific Northwest. Food manufacturers saw continued brisk sales gains, while apparel makers reported weak order growth and concerns about cancellations.

Agriculture and Resource-related Industries

Demand for agricultural products continued to expand. Contacts reported solid growth in domestic and overseas sales for a variety of crops. However, higher prices for fertilizer and grain inputs have raised costs for many farmers and ranchers. Availability of agricultural labor was mixed: contacts in Arizona reported emerging constraints due to newly effective legislation that imposes sanctions for hiring undocumented workers, while higher availability was noted among farmers in the Pacific Northwest due to employment reductions in the lumber industry.

Real Estate and Construction

District housing markets remained in the doldrums during the survey period, while demand for commercial real estate was high but showed signs of easing in some areas. Demand for new and existing homes remained exceptionally weak, and the inventory of available homes was at high levels in most areas and rose further in some. Price performance was mixed: prices on homes sold reportedly fell further in much of California, Arizona, and Nevada, but they held firm or rose a bit in parts of Utah and the Pacific Northwest. Mortgage availability and terms remained tight and continued to be a significant constraint on home purchases in many areas. In contrast to the residential sector, construction activity and sales in the commercial and industrial sectors generally have remained strong. However, contacts reported scattered signs of weaker demand, such as a decline in the number of interested buyers in the San Francisco Bay Area and lower occupancy rates for leased space in newly constructed buildings in Idaho.

Financial Institutions

District banking contacts reported that loan demand changed little relative to the previous survey period. Commercial and industrial loan volumes were largely stable, and lending for

residential mortgages stayed stuck at low levels throughout the District. Lending standards remained relatively restrictive for residential mortgages and construction loans, and scattered reports pointed to further tightening for consumer and business borrowers in general.