

For use at 2:00 p.m., E.S.T.
Wednesday
June 11, 2008

Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

June 2008

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

JUNE 2008

TABLE OF CONTENTS

SUMMARY	i
First District – Boston.....	I-1
Second District – New York.....	II-1
Third District – Philadelphia.....	III-1
Fourth District – Cleveland.....	IV-1
Fifth District – Richmond.....	V-1
Sixth District – Atlanta.....	VI-1
Seventh District – Chicago.....	VII-1
Eighth District – St. Louis.....	VIII-1
Ninth District – Minneapolis.....	IX-1
Tenth District – Kansas City.....	X-1
Eleventh District – Dallas.....	XI-1
Twelfth District – San Francisco.....	XII-1

SUMMARY*

Reports from the Federal Reserve Districts suggest that economic activity remained generally weak in late April and May. Three Districts described economic activity as softer, weaker, or lower, with an additional four Districts reporting slower, sluggish, or modest economic growth. The remaining five Districts of Philadelphia, Cleveland, Atlanta, St. Louis, and San Francisco described activity as stable or little changed in recent weeks.

Consumer spending slowed since the last report as incomes were pinched by rising energy and food prices. Higher energy prices also appeared to damp domestic tourism. Reports on nonfinancial services varied across Districts and industries. Manufacturing activity was generally soft in recent weeks, with weak demand for housing-related and some other products but with increasing demand for exports. Residential real estate markets remained weak across most Districts. Commercial real estate conditions varied across Districts, as did reports on nonresidential construction activity. Lending activity also varied across Districts and market segments, though tighter credit standards were reported for most loan categories. Districts reporting on the agriculture and energy sectors noted improved crop conditions and increased drilling and extraction activity.

Reports of higher input costs were widespread. Manufacturing contacts in several Districts noted some ability to pass along higher costs to customers. Retailers reported mixed results with respect to raising final goods prices. In most Districts, wage pressures

* Prepared at the Federal Reserve Bank of Richmond and based on information collected on or before June 2, 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.

were reported as moderate or limited for all but a few skilled-labor positions, as hiring activity remained spotty in most Districts.

Consumer Spending and Tourism. Consumer spending slowed further since the last report. Contacts in several Districts said rising energy and food prices contributed to softer sales in other categories. The overall pace of retail sales moderated in the Districts of Philadelphia, Richmond, Atlanta, St. Louis, Minneapolis, Dallas, and San Francisco, and was level in Cleveland, Chicago, and Kansas City. Retail sales reports were mixed in Boston and New York. According to contacts, retail inventory levels were generally higher in the Atlanta District and among some types of stores in San Francisco; some establishments in the New York, St. Louis, and Richmond Districts expressed concerns about inventory levels. In the Boston District retail inventories were stable. Employment was on the whole unchanged at Boston District retailers, whereas retailers in the Cleveland District said they were only hiring for new stores, and Richmond District retail contacts reported job cuts.

Reports on overall sales of automobiles and light trucks were weak, with several Districts indicating that sales of trucks and SUVs declined. Although dealers generally struggled to move vehicles off of their lots, contacts in the Richmond, Atlanta, and Chicago Districts reported solid sales of hybrid and other fuel-efficient vehicles.

Tourist activity varied across Districts. New York contacts said that tourist activity had softened, noting lower attendance at Broadway theaters. San Francisco reported weaker hotel bookings in Southern California and in Hawaii, but record hotel occupancy rates in parts of Alaska. Higher gasoline prices appeared to weaken tourism activity in the Chicago District, but increased activity at some resorts in the Richmond

District as families took vacations closer to home. International visitors boosted tourism activity in the Atlanta and Dallas Districts.

Nonfinancial Services. Reports from nonfinancial services industries varied among Districts. New York and Minneapolis reported weaker business conditions while contacts in the Richmond District reported slower revenue growth, except in telecommunications. Demand growth for service providers slowed in the San Francisco District. Demand at services businesses in Boston and Chicago, however, was mixed and the pace of business spending was little changed in the Chicago District. Meanwhile, demand in the service sector generally strengthened in St. Louis and Kansas City. Staffing agencies in the Richmond District reported somewhat weaker demand overall, while staffing agencies in the Chicago and Dallas Districts said that demand was stable. In transportation services, intermodal shipments edged down in the Atlanta and Dallas Districts, while freight service growth was flat in the Cleveland District. Reports on air travel remained strong despite route reductions, according to contacts in the Kansas City Districts.

In service sector labor markets, Chicago reported a slower pace of hiring in recent weeks and Minneapolis reported that employment in professional services companies decreased from a year ago and is expected to remain flat over the next year. Cleveland and Richmond reported little net change in services employment, while contacts in the St. Louis District said that expansion at firms in some services industries will lead to additional hiring. Boston and Dallas noted tight labor markets for some skilled workers.

Manufacturing. Manufacturing activity was generally soft since the last report. Boston, New York, Richmond, Atlanta, and Chicago reported that activity had weakened,

although St. Louis, Minneapolis, Kansas City, and Dallas indicated that activity had increased slightly. Philadelphia, Cleveland, and San Francisco described factory activity as nearly steady. Reports of softer demand for housing-related products continued to be widespread. Many Districts cited higher production costs and cuts in employment that contacts attributed to slumping home sales and construction. The Atlanta and Chicago Districts indicated that automotive production or sales fell short of expectations, while the Cleveland District saw an uptick in the production of domestic nameplates. Reports on food processing were mixed with some Districts indicating that higher prices had constrained demand, while others noted rising demand.

Industries demonstrating increased activity were boosted, in part, by a strong overseas market. Cleveland, Atlanta, Chicago, and Dallas reported that the demand for steel was strong. The output of energy-related equipment increased in the Boston, Cleveland, Atlanta, and Dallas Districts, while strong sales of farm equipment boosted demand for manufacturers of heavy equipment according to Chicago and San Francisco. Dallas also reported strong demand for transportation equipment to supply defense and aircraft industries.

Real Estate and Construction. Residential real estate markets were generally weak across most of the nation. District reports indicated flat or declining home sales in Boston, New York, Cleveland, St. Louis, and Dallas, and contacts in Philadelphia did not expect housing activity to expand strongly this year. Contacts in San Francisco reported that housing markets remained exceptionally weak, although a few reports pointed to some recent pickup in home sales attributed to increased affordability. Scattered reports from Philadelphia and Kansas City indicated seasonal improvements. Inventory levels of

new and existing homes remained high or were rising in New York, Philadelphia, Cleveland, Richmond, and San Francisco. Home sales prices decreased somewhat in Boston, Atlanta, Kansas City, and San Francisco, but remained relatively stable in Richmond and Chicago. The New York and Chicago Districts noted that some potential buyers had difficulty in obtaining financing. Residential construction declined in Chicago, St. Louis, and Minneapolis, but was flat to slightly higher in parts of the Atlanta District and spiked in areas of the Dallas District where demand for apartments was solid. Homebuilders in Cleveland expected no improvement in the housing industry for the remainder of 2008, and Chicago reported that limited credit availability for new developments had caused many builders to suffer losses on existing projects. Richmond and San Francisco noted an increase in home foreclosures.

Commercial real estate conditions varied in April and May, with some Districts reporting that activity had softened. Leasing activity eased in Boston, New York, Philadelphia, Richmond, and San Francisco. Minneapolis, however, reported that market activity was up modestly, while activity was mixed across the St. Louis District. Vacancy rates edged higher in Boston, Kansas City, and San Francisco, as well as in pockets of the Richmond and St. Louis Districts. Absorption was negative in Boston and in Minneapolis for both office and manufacturing space. Overall rents were on the rise in New York, but were stable or beginning to slip in Boston, Philadelphia, Richmond, and Kansas City. Sales trended downward according to the New York, Philadelphia, and Kansas City Districts.

Reports on nonresidential construction activity were mixed. Contacts from Chicago and Minneapolis saw slight increases in activity. Philadelphia, Cleveland,

Richmond, Atlanta, and Dallas, however, reported easing or weak levels of construction. A number of Districts – Cleveland, Richmond, Chicago, and Dallas – reported that obtaining financing remained difficult for some projects.

Banking and Finance. Reports on lending activity varied across Districts, although reports of softening in the consumer segment persisted. Overall loan demand cooled in Richmond, Atlanta, St. Louis, and San Francisco, while Philadelphia and Cleveland saw a modest increase. New York reported little change in demand across all categories, while lending activity in Chicago was mixed. Residential lending activity remained generally weak in Richmond, Atlanta, and Chicago. In contrast, demand picked up in Philadelphia, Cleveland, Kansas City, and Dallas, but was about the same in St. Louis. Commercial and industrial lending activity was mostly unchanged or declining in New York, St. Louis, Kansas City, and San Francisco, while Philadelphia, Richmond, and Chicago saw slight increases. Atlanta reported commercial lending activity as mixed.

The New York, Philadelphia, and Cleveland Districts reported increases in overall delinquencies, with respondents in New York indicating a notable rise in late payments for consumer loans. Credit quality deteriorated further in San Francisco, but began to stabilize in Chicago and Dallas. Contacts in Kansas City and Dallas expected loan quality to deteriorate going forward. All Districts reporting on credit standards noted further tightening for consumer, residential, and commercial loans.

Agriculture and Natural Resources. Despite less-than-ideal weather, crop conditions generally improved for most reporting Districts. Reports from the Richmond, Chicago, St. Louis, and Minneapolis Districts indicated that the combination of cooler-than-normal weather and wet conditions delayed planting and development of many

crops. St. Louis said that planting of major crops was behind its five-year average pace, while Minneapolis noted delayed planting and development of corn and soybeans. Richmond and Chicago reported that some crops would require replanting, although Chicago District contacts expected small losses in yields. Despite weather delays, Kansas City noted that corn planting was almost complete, soybean planting was in progress, and the winter wheat crop was in good condition. Chicago and Dallas cited high input costs and price movements for corn as factors leading farmers to shift production away from corn towards soybeans. Dairy and livestock producers in the Chicago and Kansas City Districts voiced concerns that rising feed costs were eating into profit margins.

Activity in the energy industry remained strong according to reports from the Minneapolis, Kansas City, Dallas, and San Francisco Districts. Cleveland said that energy producers reported a pickup in oil and gas drilling, and Minneapolis indicated that robust oil and gas exploration and production continued in their District. Kansas City noted that the number of active drilling rigs surged since the last survey period and remained well above year-ago levels. San Francisco reported that oil and natural gas extraction expanded further in response to growing demand, but that activity had been constrained slightly by a shortage of equipment and materials. In contrast, Dallas noted that high oil and natural gas prices had pushed drilling to the highest level in 20 years without any shortages of equipment and services to date.

Prices and Wages. Business contacts in most Districts reported increases in input prices since the last report, especially prices for energy, petroleum derivatives, metals, plastics, chemicals, and food. Manufacturing contacts in several Districts

reported some ability to pass along the higher costs to customers and contacts in the Cleveland District noted that they are considering additional price increases in the near future if input costs continue to rise. On the other hand, contacts in the Cleveland, Atlanta, and Chicago Districts noted falling or stable prices for certain goods related to the construction industry. Retail price reports were mixed, with contacts in the San Francisco District reporting subdued price pressures for most products save food and energy-intensive goods. Contacts in the New York District reported steady retail prices with somewhat more aggressive discounting. However, retail contacts in the Richmond and Kansas City Districts reported higher prices, while retailers in the Chicago District reported increased pressure to pass along higher food and energy prices. Contacts in the Kansas City and Dallas Districts cited expectations for higher retail prices in the near future.

Business contacts in most Districts reported moderate or limited wage growth in response to some loosening of labor market conditions. Contacts in the Boston, Chicago, Kansas City, and San Francisco Districts noted wage pressures for certain skilled labor positions in industries facing worker shortages.

FIRST DISTRICT – BOSTON

Sales and revenue results at First District retailers and manufacturers continue to be mixed, but contacts indicate that business activity is generally softening. Respondents cite ongoing cost pressures; many manufacturers say they have raised or plan to raise prices. Revenue growth rates have slowed for software and information technology services firms in the region, and most staffing firms report little growth. Contacts in residential real estate cite some positive signs, but ongoing declines in home sales and prices. According to most respondents, the outlook remains uncertain.

Retail

Retail contacts in the First District report mixed sales results for the months of April and May. Retailers say they see clear evidence that consumers are scaling back their spending, and the majority of respondents complain that the media's "doom and gloom" portrayal of the economy contributes to such cutbacks. One retailer is concerned about the squeeze that credit market turmoil is putting on customers.

Inventory levels and employment are generally stable, with several respondents scrutinizing the need for future hiring. Capital spending is largely on plan. A majority of contacted First District retailers mention cost pressures, mostly related to oil.

Overall, First District retailers are cautious in their outlook and expect the next few months to be a continued challenge. However, most are confident they will pull through this period of economic uncertainty; they expect conditions to improve by early to mid-2009.

Manufacturing and Related Services

Many manufacturers and related services providers headquartered in the First District see signs that business trends are deteriorating in the current quarter. Contacts say that demand has started to weaken for nonresidential building equipment and for non-automotive transportation equipment and services. Two manufacturers of health-related equipment indicate that orders have slowed, and a machinery maker reports that business "has fallen off a cliff" in the second quarter. In contrast to the general picture, demand for energy-related equipment and scientific and analytical instruments continues to grow in line with recent trends. Contacts from various industries report that overseas markets remain relatively strong, although some say their Western European sales have been sluggish in recent months.

Many manufacturers continue to voice concerns about sharply rising materials costs, especially metals, plastics and other petroleum derivatives, and chemicals. They also mention that energy and transport costs have increased substantially. Most of the affected respondents have raised prices or expect to do so shortly. However, some firms are experiencing margin pressures because of competition in specific product markets or deteriorating finances on the part of their business customers.

A majority of manufacturing respondents have implemented restructuring programs to reduce their U.S. headcounts. The remaining firms are mostly holding domestic employment steady. Average

pay increases are in the range of 3 percent to 4 percent. Contacts generally describe their 2008 U.S. capital spending plans as normal and say their domestic investments focus on reducing operating costs or developing new products. Roughly one-half of the sample point to lingering problems in capital markets; they mention high costs or stringent conditions, or they worry that funding may not be available for large, lumpy projects such as acquisitions.

Almost all firms express concerns about the U.S. economy, especially consumer spending, housing markets, and energy costs. Many expect that the impact on their business will be most notable between now and the end of the summer. A few mention likely or potential vulnerabilities in 2009.

Software and Information Technology Services

First District software and IT services contacts report mixed results for the first quarter of 2008, with a couple showing negative revenue growth from a year ago, but the majority experiencing gains. A few firms cite delays in signing contracts, which they take as a sign that their clients are uncertain about the economy. Two software companies note that domestic licensing revenue has been harder to come by in recent months. One-half of respondents are adding technology workers and sales staff, although at a much slower pace than during the previous quarter; among the other half, one firm has increased employment significantly, while the remaining firms are holding headcount stable. Respondents report that the labor market for technical talent remains tight. All contacted firms have raised pay, generally around 4 percent. The majority of New England software and information technology respondents are projecting revenues to continue growing at current rates.

Staffing Services

New England staffing firms experienced a wide range of business conditions this quarter, with one contact reporting that business is “the worst I have ever seen,” while another posted a revenue increase of nearly 20 percent compared to a year earlier. For the majority of respondents, however, business activity is either flat or changing only slightly. Contacts indicate high labor demand from the pharmaceutical, engineering, semiconductor, and aerospace industries, as well as specific needs for web developers, CAD programmers, and project managers. Reports on labor supply conditions vary across firms, with one contact seeing as many as ten new applicants per day, while another reports a dearth of applicants, partly resulting from caution about giving up existing jobs.

Several staffing executives report a change in hiring procedures among client companies. One contact says, “Clients are holding out for the A candidate, when in the past, they took the A and B candidate.” Another complains about “intense scrutiny on resumes,” which is putting applicants for temporary positions through a rigorous process akin to that used for permanent hires. One contact believes recent economic uncertainty has augmented business, with client companies increasingly turning to temporary staffing to avoid long-term obligations. On the other hand, some clients are hesitant to

undertake new projects, thus lowering their need for job applicants. Despite their concern over economic instability, respondents in the staffing industry voice optimism regarding the second half of the year.

Commercial Real Estate

Commercial real estate contacts report that the Boston office building market, which was largely dormant in the first quarter, has seen a number of properties come up for sale in recent weeks; however, one contact notes that the number of closed transactions has not yet edged up significantly. Respondents indicate that commercial mortgage originations are still being made only by traditional portfolio lenders—life insurance companies and commercial banks—and not by Wall Street investment banks, and lending standards remain relatively stringent. A small mutual bank in Boston continues to enjoy increased demand for its loans, but expects competition from Wall Street dealers to return by year's end.

Contacts indicate that commercial leasing activity has slowed further in recent weeks, but not dramatically so. Many say that maintenance and construction costs are up sharply, putting pressure on net operating incomes. In greater Boston, contracted rents for prime office space are falling short of original asking rents. Existing tenants are cutting back on space. Absorption is negative and vacancies continue to edge up. Downtown buildings appear to be doing fine, with about 10 percent vacancy, but activity is slower in the suburbs, where vacancy is estimated at 14 percent or higher. Leasing activity has been slow throughout other parts of New England but, as in Boston, office vacancy rates are still low or average by historical standards. Retail leasing activity has been strong among tourist-oriented shops in Maine, but slower in strip-mall developments across the region, where vacancy appears to be up slightly. A Providence contact reports that commercial real estate in Rhode Island is currently “in a recession.”

Despite the downbeat reports, commercial real estate contacts throughout the District indicate that layoffs have been minimal so far. Expectations are that market conditions will get slightly worse before getting better, with the turnaround expected by the fourth quarter of 2008 or the first quarter of 2009.

Residential Real Estate

Residential real estate markets in New England again saw declines in home sales and prices compared to year-earlier periods. Massachusetts home sales decreased 16 percent year-over-year in April—somewhat less than in previous months—while condo sales decreased 27 percent. Connecticut and New Hampshire experienced year-to-date home sales declines of 28 percent and 24 percent, respectively, compared to 2007. Rhode Island home sales decreased 18 percent year-over-year in March, and Maine home sales decreased 23 percent year-over-year in April. Meanwhile, median home prices are down 8 percent to 11 percent from a year earlier across the states.

Contacts in Massachusetts continue to report increased activity at open houses, and April's pending home sales numbers in the Boston area are said to look promising. However, one contact notes that financing issues could still prevent increased activity from translating into increased sales.

SECOND DISTRICT--NEW YORK

The Second District's economy has been generally weaker since the last report. Manufacturers report that business activity remained sluggish in May, while cost pressures have been increasingly widespread. Contacts at non-manufacturing firms, in general, report continued deterioration in business conditions and anticipate little improvement in the months ahead. A major employment agency notes recent weakening in hiring activity and some general slackening in the labor markets. Retailers indicate mixed results for April and May; sales are said to be close to plan on average.

Tourism activity in New York City has shown some signs of softening since the last report. Housing markets weakened further, with sales activity down and prices flat to lower. New York City's office market continued to soften in April and May—while leasing activity has remained moderately brisk, vacancy rates have continued to rise. Finally, bankers report some steadying in loan demand, further tightening in credit standards, and continued increases in delinquency rates across all loan categories.

Consumer Spending

Retailers report that sales were mixed in April and May; on average, sales were relatively close to plan and little changed from a year ago. As has been the case in recent months, sales were reported to be particularly strong in New York City. Inventories are mixed—one large chain notes they are at desired levels but another reports a sizable overhang. Retail selling prices are reported to have remained steady since the last report, though with somewhat more aggressive discounting; one major chain anticipates a sizable increase in apparel prices in the upcoming season, based on higher acquisition costs.

Consumer surveys indicate further deterioration in confidence: the Conference Board's survey of Middle Atlantic state residents (NY, NJ, Pa) shows consumer confidence declining for the eighth consecutive month in May, falling to a nearly 15-year low. Tourism activity in New York City has shown some signs of softening since the last report. While Manhattan's hotel occupancy rate remained

close to 90 percent in April, room rates were up by 7½ percent from a year earlier, and total revenues were up 6 percent; these are the smallest 12-month increases in more than two years. More recently, Broadway theaters report that both attendance and revenues were down more than 10 percent from a year ago in April; they recovered somewhat in May but were still down roughly 3 percent from a year earlier.

Construction and Real Estate

Housing markets in the District have shown further signs of weakening. Sales transactions for Manhattan co-ops and condos are reported to have been down sharply from a year earlier in April and May, while inventories of unsold units have risen by much more than the seasonal norm since the beginning of the year. A leading appraisal firm reports that average and median selling prices have been buoyed by a skew in volume toward the high end, with prices of comparable units flat to lower than a year ago. Sales activity in the outer boroughs is also reported to be down sharply from a year earlier. One industry contact says that he has heard of quite a few deals falling through due to difficulties in obtaining financing.

Separately, an expert in New Jersey's homebuilding industry notes that the market for new homes is being hampered by ongoing weakness in the resale market, where sales activity remains at low levels and prices are down more than 10 percent from a year ago. However, builders are reported to have worked through much of their inventory overhang and are no longer offering aggressive discounts, but they are still offering concessions.

Commercial real estate markets in the region have shown further signs of slackening since the last report. While Manhattan's office market is still fairly active in terms of leasing activity and renewals, office vacancy rates continued to rise in May—particularly on Class A properties. A sizable amount of available space is coming onto the market, largely from financial firms. This has bolstered average asking rents, as the mix of available space has become more weighted toward the high end: asking rents are up roughly 10 percent from a year ago, but this is well below the 20 to 30 percent appreciation seen

in 2007. The sales market for office properties is reported to be especially weak, with prices estimated to be down 15 to 20 percent from a year earlier. New Jersey's office rental and sales markets are also reported to be increasingly soft, with a fair amount of new development said to be in the pipeline.

Other Business Activity

A major New York City employment agency notes that hiring activity has weakened noticeably in May, though the final week of the month did see a slight pickup. This contact also indicates a noticeable increase in job candidates recently laid off from the securities industry. Small financial firms are reported to be hiring sporadically, but the major Wall Street firms are reported to be hiring very little or not at all. Legal firms have also pulled back on hiring, apparently reflecting diminished financial sector business. Starting salaries are reported to be little changed from a year ago; in general, firms are making somewhat lower offers on average, because a larger proportion of job applicants are currently out of work.

New York State manufacturers report that business activity remained sluggish in May; contacts again report increasingly widespread hikes in prices paid but only moderate increases in selling prices. Non-manufacturing contacts, in general, report continued widespread weakening in business conditions and widespread cost pressures but steady employment levels.

Financial Developments

Bankers report little change in loan demand in any loan category or in refinancing activity. Respondents indicate continued tightening of credit standards across all loan categories, most evidently in the commercial mortgage category. No bankers report eased standards for any type of loan. Respondents note an increase in the spreads of loan rates over cost of funds in all loan categories, especially in commercial and industrial loans. Bankers also report a decrease in average deposit rates. Finally, respondents indicate a rise in delinquencies in all loan categories, but most notably on consumer loans.

THIRD DISTRICT – PHILADELPHIA

Business conditions in the Third District showed signs of stabilizing during May, overall, as some sectors strengthened slightly and others weakened. Manufacturers, on balance, reported nearly steady rates of new orders and shipments in May, after decreases in April. Retailers continued to post lackluster sales results, with many stores experiencing year-over-year decreases. Sales of motor vehicles continued to fall. Bank lending has been increasing slowly. Residential real estate sales and construction activity remained well below the pace of a year ago, although there has been a slight seasonal increase in home sales. Commercial real estate leasing and construction activity has diminished in the past few months. Reports of increases in input costs and output prices were about as common in May as they were in April. Employers in the District continued to describe wage increases as moderate.

The outlook among Third District businesses varies. Manufacturers' forecasts have become more positive since the last Beige Book. On balance, they expect increases in shipments and orders during the next six months. Retailers generally do not foresee a significant increase in the sales pace during the summer. Auto dealers expect sales to weaken further. Bankers anticipate slow expansion in overall lending. Residential real estate agents and home builders expect sales to continue to be slow during the next several months despite the recent slight upturn. Contacts in commercial real estate expect leasing and construction activity to remain soft until financial conditions improve.

Manufacturing

Third District manufacturers reported nearly steady rates of shipments and new orders, on balance, from April to May. Around one-half of the manufacturers surveyed noted no change, month-to-month, and the percentage reporting increases was offset by that of firms reporting decreases. Overall, manufacturers in the District reported a drop in order backlogs from April to May. Increased demand for their products was reported by producers of lumber and wood products, furniture, electrical machinery, and testing and measuring instruments. Decreased demand was noted by producers of apparel, chemicals, and petroleum products. Several firms reported that demand for their products was slow “due to low levels of housing construction” or

“less automotive business.” However, several firms reported that they were benefiting from “strong exports” or because of the “return of work” that had been done offshore.

The outlook in the Third District manufacturing sector has improved since the last Beige Book. Around one-half of the manufacturers polled in May expect new orders and shipments to rise during the next six months, and around one-tenth expect declines. On balance, manufacturers in the District expect their order backlogs to grow, and they plan to increase working hours.

Retail

Retailers in the Third District generally reported that sales continued to be slow in May. Results varied across stores, but on balance sales were level with or somewhat below sales in May of last year, on a current dollar basis. Some stores reported increases in sales of big-ticket items, such as appliances and furniture, boosted by promotions that encouraged shoppers to spend their income tax rebates. Nevertheless, most of the retailers contacted for this report said the spring selling season has not met expectations. In general, merchants said low consumer confidence and rising food and energy costs are deterring discretionary spending. One retail executive said “high gas and food prices are sucking money out of retail” and another noted that “consumers will respond only if you provide value.”

The outlook among retailers in the District remains subdued. Most of those surveyed in May see no signs that consumer spending will strengthen soon, and they do not expect sales to pick up significantly until consumer confidence is restored. With an uncertain outlook, many retail companies in the region are postponing expansion plans and limiting capital improvements.

Auto dealers in the region generally reported a continuing downward sales trend in May. Although there were indications that sales of automobiles were increasing, the decline in sales of light trucks and SUVs has led to a drop in total vehicle sales compared to a year ago. Dealers in the region expect total vehicle sales to weaken further during the summer.

Finance

Total outstanding loans at Third District banks rose slowly in May. There were gains in all major credit categories, although real estate loan growth was weak. Bankers said the slow rate of real estate loan expansion was the result of a low rate of home sales as well as limits that lenders were imposing on home-equity lending. Most of the bank lending officers contacted for

this report said that commercial and industrial lending was on the rise. They indicated that loan demand was coming from firms in many industries and from nonprofit institutions. However, bankers generally indicated that they were continuing to limit lending for real estate development. One banker commented that this type of lending has “ground to a halt.” Consumer lending was on the rise, although some banks noted that credit card loan growth had eased recently. Several banks reported deterioration in credit quality across all loan categories, although most indicated that delinquencies and charge-offs have increased only slightly. In general, banks in the District have continued their efforts to increase deposits. In contrast to market conditions earlier in the year, however, they noted that competition for deposits has eased and, as one banker said, “deposit pricing has become a bit more judicious.” Looking ahead, bankers generally foresee slow growth in overall lending during the rest of the year. They expect commercial and industrial lending growth to continue at about the current rate, but some expect a slowing in consumer loan growth, and most anticipate little or no gain in real estate lending.

Real Estate and Construction

Residential real estate activity in the third District has shown some seasonal improvement in recent weeks but remains well below the pace of a year ago. Residential real estate agents reported sales of existing homes were edging up modestly in many parts of the region, and new home sales have increased slightly in some areas, as well. However, real estate agents noted that the average time homes are on the market has not declined and inventories of homes for sale remain high. In general, residential real estate contacts do not expect housing activity to expand strongly this year. One noted that the “correction has a year to run at least,” and another said “a real construction rebound will occur in 2009.”

Commercial real estate firms indicated that construction, leasing, and purchase activity have eased since the winter. Nevertheless, overall office vacancy rates have edged down in most markets. Rents have remained stable for class A buildings, but have fallen for class B buildings. Contacts anticipate that sluggish activity will persist as long as economic conditions remain uncertain or, as one contact phrased it, “until the next up-tick in the capital markets.”

Prices and Wages

Reports of increases in input costs and output prices from Third District business contacts continued to be as prevalent in May as in April, and for many of the same goods. Firms in the region noted increases in the prices of food products, chemicals, industrial materials, and metals. They also reported rising costs for energy. Firms noted increases in the prices of a wide range of imported goods, and they expect import prices to rise further. Most of the firms reporting on employment costs in May indicated that wage increases remained moderate. Some contacts noted that slower business activity or delays in expansion plans were resulting in reductions in current and prospective employment.

FOURTH DISTRICT – CLEVELAND

Economic activity in the Fourth District has been stable since early April. Factory output and shipments by steel producers were steady to increasing. Production at auto assembly plants rose slightly. The housing industry remains weak, with little expectation of improvement for the remainder of the year. Commercial building contractors reported steady business activity, although there is some concern about weakening backlogs. Sales by District retailers were flat to improving. Bankers reported that lending standards continue to tighten, though credit remains available. Demand for business loans was mixed, while lending to households has weakened. Energy production was stable, and the demand for freight transport services was flat.

On balance, employment levels were largely unchanged across the District. Several contacts reported modest wage pressure. Staffing firms saw little net change in the number of job openings, while the number of job seekers increased. Job vacancies were greatest in health-care-related fields. A significant rise in commodity-based input prices was reported across the board.

Manufacturing. Output by District factories was stable to increasing during the past six weeks. Reports of increased production were attributed primarily to seasonal adjustments or rising demand by customers in energy-related industries. On a year-over-year basis, reports were evenly split between production slowdowns and increases, with only one company experiencing a significant increase. The outlook of manufacturers is best described as guarded, with several contacts noting a softening in demand. Steel shipments were stable to increasing for producers and service centers. The strongest end markets for steel include energy and heavy equipment manufacturing. Contacts expect steel demand to remain at current levels or decrease slightly during the third quarter. District auto production showed a slight uptick in April on a month-over-month basis. Output by domestic nameplates increased, while their foreign counterparts showed a small decline. In terms of year-over-year comparisons, auto production was down appreciably.

For the most part, capital spending remains on plan, with little change expected in the upcoming months. Reports of decreased capital expenditures were tied to lower sales forecasts. Although standards have tightened, access to credit is not an issue for manufacturers. All our

contacts reported substantial price increases for raw materials, especially metals and petroleum-based inputs. In response, over two-thirds of our contacts either raised their product prices or increased surcharges. Further, most contacts are considering additional price increases in the near future if input costs continue to rise. Those manufacturers who did not raise prices sell primarily to the housing industry. About a third of our respondents said they had recently hired a small number of workers, some on a temporary basis. Other manufacturers noted that they had increased overtime in place of new hiring. Wage pressures are not a major issue at this time, though many respondents expressed concern about rising health care costs.

Real Estate. New home sales were flat to declining, while inventory levels remain high. Even though there has been a slight pickup in traffic, almost all home builders expect no improvement in the housing industry for the remainder of 2008. New home prices have been relatively stable since our last report, though discounting has increased. Accounts of dramatic increases in steel, concrete, and fuel costs were widespread; in contrast, lumber prices were stable. Several general contractors reported reductions in staff and that subcontractors are readily available at competitive rates.

Commercial contractors said that business has been steady over the past six weeks, with several noting an increase in activity on a year-over-year basis. However, several builders mentioned that backlogs are weakening. Further, owners and developers are finding it more difficult to obtain project funding due to stricter credit standards. Most contractors experienced a rise in the cost of materials, especially for steel and concrete. Workforce levels remain largely unchanged.

Consumer Spending. District retailers reported flat to improving sales across all segments since our last report. However, our contacts are very cautious in their outlook for the third quarter, with the majority expecting sales to be relatively flat. Reports from auto dealers showed that new and used car sales across the District were mixed, while purchases of SUVs and trucks declined. Dealers anticipate little change in sales during the coming weeks. In general, vendor price increases were limited to food items, paper products and fuel surcharges. Most retailers have passed these increases through to their customers. Capital expenditures remain on plan, albeit at reduced levels compared to 2007. Employment growth is limited to staffing new

stores.

Banking. Demand for commercial and industrial lending was mixed. Segments showing strength include commercial real estate and small business loans. Consumer loan demand has weakened, especially for autos. Nonetheless, a few contacts noted a pickup in home equity lines of credit. Most respondents experienced a slight increase in delinquencies. An uptick in home mortgage originations was attributed to seasonal factors and is not seen as the beginning of a trend. Bankers told us that credit is available, though lending standards continue to tighten. Reports on core deposits were mixed. Employment levels across District banks showed a small net decline, and a few bankers are experiencing modest wage pressures.

Energy. On balance, there has been little change in oil, gas and coal production. However, energy producers reported a pickup in oil and gas drilling. Looking forward, almost all our contacts told us they expect to see a rise in production activity. Reports indicate that spot and contract prices have increased across the board. In general, equipment and material costs, especially fuel, were on the rise. Capital expenditures were on plan or slightly higher than projected, with half of our respondents telling us they expect to increase the number of capital projects during the next few months. Employment levels increased slightly, and producers are looking to expand payrolls. However, many of them told us that it is difficult to attract qualified workers, which is contributing to some upward pressure on wages.

Transportation. Freight transport has been flat since our last report, with volumes running below available capacity. Most carriers expect current market conditions to continue into the second half of 2008, with some modest improvement toward the end of the year. All our contacts noted a significant jump in fuel prices, which they were largely able to pass through via a surcharge. Freight pricing remains competitive; however, as excess capacity is removed from the system, some contacts believe prices will begin to strengthen. Capital expenditures were reported to be somewhat below projected plans. Carriers expect that future expenditures will not increase until freight volumes start to pick up. Hiring was limited to driver turnover, and no change in wages was reported.

FIFTH DISTRICT–RICHMOND

Overview. On balance, economic activity in the Fifth District edged lower in late April and May. Retailers reported declining activity in recent weeks, due in part to higher food and energy prices sapping consumers' available income. Home sales remained sluggish across most of the District, and commercial real estate leasing was soft. In addition, commercial lending eased further as some lenders tightened credit standards. Manufacturing activity also slipped, though several contacts noted that export demand continued to be a bright spot. Many services providers reported slower revenue growth in recent weeks, although some resort locations saw increased activity over the Memorial Day weekend. Manufacturers and retailers trimmed payrolls and services firms reported little new hiring activity. On the price front, contacts reported generally higher prices in recent weeks. Manufacturing contacts stated that rising energy and transportation costs were being passed through to final goods prices.

Retail. According to most retail contacts, sales declined in recent weeks. The general manager of a department store in an upscale area near the Washington, D.C., beltway told us that his customers were now waiting for clearance sales. At a sporting goods store in West Virginia, the manager said he was watching inventory levels, "with an eye towards a downward adjustment." Although contacts at District grocery stores reported more rapid revenue growth in recent weeks, a spokesperson for several retailers in central Virginia told us that "the same wallet is buying less" at grocery stores in his locale, leading to inventory adjustments. Sales of automobiles and light trucks generally remained in the doldrums, but a dealer in West Virginia told us his hybrid sales have risen more than 50 percent from a year ago. District retailers continued to cut jobs and wage growth leveled off. Retail prices, however, moved higher.

Services. Revenue growth slowed at services firms since our last report. A financial services executive in Baltimore, Md., and a central Virginia brokerage contact said that clients remained "very nervous." However, the Baltimore contact told us credit markets appeared to be improving in recent weeks. A contact at a national freight trucking business in North Carolina reported that recent bankruptcies in the trucking business led to a slight uptick in demand at his company. According to that contact, his company's profit margin shrank because higher diesel fuel prices were not entirely recovered through contracts. The one pocket of strength was telecommunications. Several contacts in that category reported a pickup in revenue growth. The pace of hiring at services firms was nearly flat in recent weeks. Wage growth in the sector moderated and price growth was little changed since our last report.

Manufacturing. District manufacturers reported a modest decline in activity in May as new orders and shipments edged into negative territory. Contacts largely attributed the lower pace to weaker domestic sales. A manufacturer at a North Carolina apparel factory reported a boost in foreign sales, but noted that the advantage had been largely negated by increased raw material costs. Similarly, a furniture manufacturer in North Carolina reported that exchange rate movements were forcing price increases for imported products despite soft demand nationally. Respondents were noticeably more concerned about rising energy and transportation costs. An automotive parts producer in West Virginia echoed these concerns, describing the rate of increase as “alarming” with transportation costs, primarily fuel surcharges, continuing to increase almost daily. Accordingly, the price of finished manufactured goods rose somewhat across the District as producers found they could no longer simply absorb these higher costs.

Export activity at Fifth District ports “stayed strong” with notable outbound volumes of heavy equipment and full containers despite a dip in domestic auto shipments. Import volumes flattened since our last report. Inbound container ships remained near capacity, but imports of bulk building materials such as lumber and plywood continued to slump. Port officials reported that rising fuel costs persisted in recent weeks, but not enough to offset activity “as of yet.”

Finance. Residential lending activity slowed a bit in recent weeks as the number of mortgage originations fell slightly and refinances continued to taper off. Contacts in Richmond, Va., Raleigh, N.C., and Hilton Head, S.C., reported a decrease in demand since early April, and a Charleston, S.C., lender said his firm had not seen the “normal pickup that comes with the spring buying season.” Interest rates on mortgages were relatively steady, although a contact in Charlotte, N.C., noted rates had moved a touch higher in the last two weeks. Several lenders said they again reduced loan-to-value ratios over the last six weeks, while contacts in Hilton Head, S.C., and Charlotte, N.C., reported raising credit score requirements a bit further.

On the commercial lending front, reports on activity were mixed. In Charleston, W.Va., and Charlottesville, Va., contacts noted a slight pickup in activity, while other lenders covering the Carolinas and Virginia reported demand as steady. A Baltimore, Md., contact noted that “if they can, clients are holding off on transactions.” Interest rates on commercial loans generally dipped since April. Lenders in Charlottesville, Va., and Baltimore, Md., however, reported that rates had edged higher more recently but were “competitive for qualified clients.” Reports on credit standards revealed modest tightening at some institutions.

Real Estate. While Fifth District Realtors continued to report generally sluggish home sales in recent weeks, marginal improvements in sales were noted by agents in Charlotte, N.C., and in

Fredericksburg, Va. Other contacts noted that they were not seeing the kind of activity typical for this season. An agent in Greensboro, N.C., said he was “having a tough time getting sales,” adding that negative press reports had people “still holding back.” Inventory levels continued to swell in several areas in the District and a few agents told us they had noticed an increase in foreclosures. House prices remained relatively stable across most of the District in recent weeks. A Richmond, Va., Realtor noted that prices were more reflective of what buyers were paying two years ago.

Commercial real estate market conditions softened further. Leasing activity generally cooled across the Fifth District in late April and May. Contacts in Columbia, S.C., Baltimore, Md., and the Washington D.C., suburbs noted weaker demand for office space in their markets. However, contacts in Raleigh, N.C., and Charleston, W.Va., reported demand as steady. Leasing activity for retail space “slowed notably” in Columbia, S.C., and was “sluggish” in Richmond, Va. Vacancy rates were flat across most of the District, but edged a bit higher in the Washington, D.C., metropolitan area for both office and retail space. Rental rates were mostly firm, although contacts in Baltimore, Md., and Washington, D.C., noted an uptick in concessions being offered to clients. Financing remained a challenge according to contacts in Raleigh, N.C., and Columbia, S.C. Agents reported little to no new construction, and contacts in Baltimore, Md., and Washington, D.C., saw projects shelved until “at least next year.”

Tourism. Tourist activity was mixed across the District since our last report. Contacts at mountain resorts in Virginia and West Virginia reported stronger bookings for the Memorial Day weekend compared to a year ago. A manager at a mountain resort in Virginia attributed the increase to exceptionally pleasant weather and families taking vacations closer to home because of higher gas prices. Tourist activity at coastal areas varied, however. A hotelier on the Outer Banks of North Carolina reported brisk restaurant sales and hotels and motels filled to capacity, while a contact in Virginia Beach, Va., noted a pullback in the number of visitors and the occupancy rate. Moreover, a contact in Myrtle Beach, S.C., told us that vacationers had reduced their average length of stay by one-third and their discretionary spending by 40 to 45 percent.

Temporary Employment. Fifth District temporary employment agents reported somewhat weaker demand for workers in recent weeks. Contacts in Richmond, Va., and in Hagerstown, Md., told us that demand for workers had tapered off due to a general weakening in the economy. However, contacts in Raleigh and Cary, N.C., were optimistic that demand for workers would improve over the next several months due to the strength of their local markets, their staffing specializations, and the gradual increase in orders being placed by their existing clients. Demand for

workers was strongest for warehouse and distribution centers, medical, mortgage, professional services and life sciences industries.

Agriculture. Cooler-than-normal temperatures in recent weeks slowed the planting and development of District crops. Soybeans, sweet corn, and cucumber plantings were well behind schedule in Maryland, while plantings of peanuts and soybeans were slightly behind in Virginia. Furthermore, corn was replanted in several counties of Virginia due to the cooler weather. Agricultural analysts noted that crop conditions remained in mostly good condition throughout the District, despite dry conditions in some areas of North and South Carolina. Small grain harvesting began in Virginia with the majority of the crop in good to excellent condition.

SIXTH DISTRICT – ATLANTA

Summary. Sixth District business contacts indicated that overall economic activity remained weak from mid-April through May. Several retailers and auto dealers reported that sales were disappointing, but tourism activity continued to be positive. Reports from homebuilders and Realtors indicated that home sales and prices remained below year-ago levels. However, most Florida homebuilders we contacted stated that new home sales were flat to slightly up on a year-over-year basis. District contractors indicated that commercial development remained soft and most industrial contacts reported that production and shipments were down from year-ago levels. Banking industry contacts reported loan demand for all types of loans was slightly lower. Labor markets displayed additional signs of weakness with contacts in several industries citing plans to limit hiring and, in some cases, reduce payrolls. Further price increases were noted in energy, metals, and agricultural goods. Business' ability to pass through higher input costs to customers varied.

Consumer Spending and Tourism. District merchants reported that the pace of sales decelerated from year-ago rates during late April and May, with overall activity described as below expectations and inventories higher than a year ago. Weakness in building materials and home-related durables persisted. The outlook among retail contacts was mixed, but most did not expect a significant increase in sales in the near-term. Most auto dealers reported disappointing sales during late April and May for both domestic and import brands. Inventories of trucks and SUVs were up significantly in early May, according to industry reports. Demand remained healthy for hybrid and small-engine vehicles, however. Tourism-related sales in the District remained strong with international visitors boosting activity in Florida, and the New Orleans convention and tourism sector continued to improve.

Real Estate. Reports from homebuilder and Realtor contacts indicated that new and existing home sales remained below year-ago levels in April and May in most areas. For the first time in over two years, Florida homebuilders reported that new home sales were flat to slightly up on a year-over-year basis. Sales of new homes outside Florida were described as below year-ago levels. Realtors in Florida and other Sixth District states conveyed that existing home sales remained below year-ago levels. Both

homebuilders and Realtors continued to note declining home prices throughout the District. New home inventories continued to moderate while inventories of existing homes increased.

Reports from District contractors indicated that the pace of commercial development was below that of a year-ago. The majority of contacts continued to report that commercial construction declined during late April and May compared with a year ago. Order backlogs continued to shrink while material costs continued to rise.

Manufacturing and Transportation. Most industrial contacts reported that production and volume of shipments were down from year-ago levels. In addition, many cited higher production costs and cuts in employment or hours. Slumping home sales and weak construction have led to layoffs in District companies producing items such as carpet, appliances, and building materials. Automobile production continued to decline as well. Steel, defense-related, and energy-related production increased further, according to contacts..

Trucking and rail contacts reported lackluster activity in late April and May. Freight demand remains soft, and escalating diesel prices have added pressure to several regional trucking firms. Regional rail activity was reportedly down through mid-May from year-ago levels, with a sharp drop in shipments of automotive and construction materials offsetting gains in coal and farm products. Inter-modal shipments were down slightly from year-ago levels.

Banking and Finance. District contacts reported loan demand for all types of loans was trending slightly lower. Demand for mortgages was particularly weak, while consumer and retail loan demand was described as soft. Commercial loan demand was reported as mixed and varied by location. Lenders are applying stricter underwriting standards for most types of loans. Deposit growth was generally described as restrained at District banks.

Employment and Prices. Labor markets weakened in late April and May with many construction firms and building materials suppliers noting plans to decrease their labor force. Contacts in several other industries plan to limit hiring in the immediate future and, in some cases, cut payrolls as well.

Fuel and petrochemical price increases were noted across the District. Increases in the prices of metals and agricultural goods were also observed. There were more reports of these price increases being passed on. However, notable exceptions were construction firms, building materials producers, and businesses that were restricted by existing fixed-price agreements with their customers.

Agriculture. Spring rains improved agricultural conditions across much of the District. However, some areas in Florida have had no significant rainfall since April. With dry pasture conditions, Florida ranchers are reporting hay shortages and are selling off livestock to relieve grazing pressures. Agricultural firms across the region noted higher costs of fuel, fertilizer, and feed. Market conditions for local poultry and cotton remained favorable because of strong global demand and a favorable international pricing environment.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District expanded in April and May, but at a slower pace than in the previous reporting period. Consumer spending was sluggish, and labor market conditions weakened some, although they continued to vary by industry and location. Residential construction showed signs of stabilizing and nonresidential construction steadily increased. Manufacturing activity weakened slightly, but business conditions remained solid. Consumer lending declined, while business lending remained strong. Cost pressures from rising material and energy prices increased significantly from the previous reporting period, while wage pressures remained low. Delays in planting crops led to expectations of small losses in yield.

Consumer spending. Consumer spending remained sluggish in April and May. Higher food and energy prices coupled with a weakening labor market in some areas of the District limited consumer demand. Retail sales were steady, but margins were squeezed for many retailers as low pricing power combined with higher wholesale prices created a tough business environment. Gasoline sales were down as was tourism and business travel. As a result, activity in the hotel and food service industries weakened considerably. Light vehicle sales also slowed, although inventory levels remained at comfortable levels. Dealers observed that the composition of demand was increasingly shifting towards smaller, fuel efficient cars and used vehicles as consumer budgets tightened and gasoline prices continued to move higher. Several contacts in this industry also mentioned a decline in auto loan quality in recent months.

Business spending. The pace of business spending was little changed from the previous reporting period. However, several manufacturing contacts reported plans to take advantage of more favorable terms of trade and avoid rising transportation costs by bringing back production from overseas. Employment conditions in the District weakened slightly, with Michigan and Wisconsin exhibiting larger declines. The demand for labor was weak in the construction, retail trade, and hotel and food service industries. Lay-offs were reported in the manufacturing, automotive, and financial services industries. Professional and business services and health care remained bright spots for hiring, and the demand for skilled labor remained strong as shortages of such workers continued to be reported. Staffing firms' billable hours were stable from the previous reporting period. However, a contact in this industry continued to report unwillingness on the part of small to mid-size clients to agree to longer term contracts due to the uncertainty surrounding the current business environment.

Construction/real estate. The pace of construction stabilized from the previous reporting period. The decline in residential construction slowed in April and May for much of the District, and several contacts expressed the belief that it may be approaching a bottom for the Midwest. Absorption rates of residential housing remained low, but began to increase in many areas as cancellations declined and prices showed signs of stabilizing. However, credit availability for new developments remained tight, and many builders continued to suffer losses on existing projects. Demand slowly returned to some markets as inquiries were reported to have increased, particularly among first-time home buyers. However, many potential buyers were finding it difficult to obtain a mortgage. Nonresidential development and construction steadily increased outside of Michigan, reflecting mostly major infrastructure projects. Several contacts noted that declining credit availability for medium and large-scale projects, such as hotels, was significantly reducing the project pipeline and would be limiting growth going forward.

Manufacturing. Manufacturing activity in the District weakened slightly from the previous reporting period; but, overall, business conditions remained favorable. Activity continued to be robust in the domestic steel industry. Production was running near full capacity and contacts in several downstream industries reported limited availability of steel-related materials. Demand for heavy machinery in areas such as large-scale agriculture, oil and gas extraction, mining, and aircraft also remained strong. Export-oriented industries continued to flourish, with many contacts citing advantageous terms of trade. However, demand continued to be soft for manufacturers with close ties to residential housing, particularly the building materials and home appliance industries. Automakers reported domestic sales were below expectations as price discounts were insufficient to move larger vehicles. Contacts in the auto industry also expressed concern about falling consumer confidence and the fact that activity was approaching levels not seen for over twenty-five years. Production cuts have been implemented, and it was reported that lost production from the recent American Axle strike would not be made up.

Banking/finance. Overall, credit market conditions in the District were little changed from the previous reporting period. Consumer loan demand continued to decline and lenders marginally tightened standards. Loan quality, however, appeared to be stabilizing. Home equity loans increased and home equity lines of credit were flat, although both remained below levels typical for the current pricing environment. Mortgage refinancing decreased and mortgage originations were low, and contacts reported that lending remained concentrated among fixed-rate and conforming mortgage products. Business loan demand increased slightly, particularly for commercial and

VII-3

industrial loans. However, concerns about the commercial real estate sector and the inability of banks to syndicate these loans continued to limit the availability of credit to this market.

Prices/costs. Costs rose substantially for a variety of inputs from the previous reporting period. Rising costs for commodity and energy inputs were cited by contacts in numerous industries, and there were several reports of pass-through of the higher costs to other prices. A contact in the financial services industry noted that many commodity traders were extending positions out to five years in anticipation of even higher commodity prices. Many contacts cited the rising price of steel and related metals as a significant factor in their costs, with one manufacturing contact noting that steel surcharges had surpassed the base material costs. Retailers reported that they were finding it more difficult to limit the pass-through of higher wholesale food and energy prices to consumers. Rising fuel prices were also reported as contributing to higher transportation costs and a reduction in labor mobility. Conversely, a contact in the construction industry reported that wallboard prices had declined to the degree that they no longer covered production costs. Wage pressures were limited outside of the skilled labor positions that continue to experience shortages and a report of union wage demands from some skilled trades in the construction industry.

Agriculture. Wet and cool weather resulted in widespread planting delays during April and May. Nonetheless, by the end of the reporting period corn planting was nearing completion and soybean planting was well underway. As a result, the emergence of corn and soybean plants was behind the normal pace in most of the District. However, contacts expected relatively small losses in yield, though some ground will require replanting. On the plus side, high levels of subsoil moisture provide some insurance against drought this summer. Corn prices drifted lower during the reporting period, while soybean prices picked up again. These price movements and high input costs for corn held back the shift toward extra corn acres. Milk, cattle, and hog prices increased. Margins of livestock producers remained tight due to rising feed costs, which also were reported to be causing producers to pare back herds.

VIII-1

Eighth District - St. Louis

Summary

Overall economic activity in the Eighth District has remained roughly flat since our previous report. Contacts in the manufacturing and services sectors noted slight increases. Retail and auto sales declined in April and early May compared with a year ago. April year-to-date home sales and residential construction continued to weaken throughout the District compared with the same period in 2007, while commercial real estate market conditions were mixed in the first quarter of 2008 relative to the fourth quarter of 2007. Lending activity at a sample of large District banks decreased moderately in the first quarter of 2008 relative to the fourth quarter of 2007.

Consumer Spending

Contacts reported that retail sales in April and early May were down, on average, over year-ago levels. Half of the retailers reported decreases in sales, whereas 21 percent reported increases. About 47 percent of retailers reported that sales levels met their expectations, 47 percent reported that sales were below expectations, and 5 percent reported that sales were above expectations. Jewelry and food were strong sellers, while gift items, home décor, and clothing moved more slowly. About 42 percent of contacts reported that inventories were at desired levels; 50 percent reported too-high inventories and 8 percent reported too-low inventories. About 46 percent of retailers expect sales to increase over 2007 levels, and 42 percent expect sales to decrease.

Car dealers in the District reported that, compared with last year, sales in April and early May were down, on average. About 64 percent of the car dealers surveyed reported a decrease in sales, while 27 percent reported an increase. About 38 percent of the car dealers noted increased used car sales relative to new car sales and 71 percent reported increased low-end vehicle sales relative to high-end vehicle sales. One-third of the respondents reported more rejections of finance applications; none reported more acceptances. About 43 percent of the car dealers surveyed reported that their inventories were too high, and 22 percent reported that their inventories were too low. Half of the car dealers expect

VIII-2

increased sales for the summer over 2007 levels, and another 12 percent expect sales to be the same, but 38 percent expect decreased summer sale.

Manufacturing and Other Business Activity

Manufacturing activity has increased slightly since our previous report. Several manufacturers reported plans to open plants and expand operations in the near future, and a smaller number of contacts reported plans to close plants and reduce operations. Firms in the chemical manufacturing and steel manufacturing industries reported plans to open new facilities and expand production in the District; contacts in frozen foods manufacturing and office supplies manufacturing industries reported plans to expand existing facilities and operations. Firms in the above mentioned industries also reported plans to hire additional workers. In contrast, contacts in the motor vehicle, motor vehicle parts, furniture, and plastic manufacturing industries reported plans to lay off workers and decrease operations. One firm in the electrical equipment and appliance manufacturing industry announced that it will close a plant in the District, and a firm in the frozen foods manufacturing industry announced that it will not rebuild a large operation destroyed by fire.

The services sector has strengthened in most areas of the District since our previous report. Contacts in the business support services industries reported plans to expand operations in St. Louis, Little Rock, and Louisville; a few firms in the financial services industry announced plans to expand operations. Firms in these industries also reported plans to hire additional workers.

Real Estate and Construction

Home sales continued to decline throughout the Eighth District. Compared with the same period in 2007, April 2008 year-to-date home sales declined 18 percent in Memphis and Louisville and 17 percent in St. Louis and Little Rock. Residential construction also continued to decline. April year-to-date single-family housing permits fell in all but one District metro area compared with the same period in 2007. Permits declined 53 percent in Memphis, 40 percent in Louisville and St. Louis, and 33 percent in Little Rock.

VIII-3

The District's commercial real estate market conditions were mixed. The first-quarter 2008 industrial vacancy rates in St. Louis and Louisville decreased over the fourth quarter of 2007, while industrial vacancy rates in Memphis and Little Rock increased slightly. During the same period, suburban office vacancy rates decreased in St. Louis and Louisville but increased in Little Rock and Memphis. Downtown office vacancy rates showed no change in Louisville, decreased in St. Louis and Memphis, and increased in Little Rock. Contacts in Memphis reported slowed development of industrial projects. Contacts in south-central Kentucky reported that commercial construction is relatively strong, with considerable commercial construction planned throughout the Bowling Green area. Contacts in Louisville reported a stable volume of work among nonresidential construction contractors.

Banking and Finance

A survey of senior loan officers at a sample of large District banks showed a moderate decrease in overall lending activity in the first quarter of 2008 relative to the fourth quarter of 2007. During this period, credit standards for commercial and industrial loans tightened somewhat, while demand for these loans varied slightly from moderately weaker to moderately stronger. Credit standards for commercial real estate loans were tightened somewhat during this period, while demand for these loans was moderately weaker. Credit standards for consumer loans ranged from unchanged to tightened somewhat, while demand ranged from about the same to moderately weaker. Credit standards for residential mortgages were tightened, while demand for these loans ranged from about the same to moderately weaker.

Agriculture and Natural Resources

Frequent wet and cool weather conditions since early April have delayed planting and crop growth throughout the District. Planting of the major crops—corn, soybeans, sorghum, cotton, and rice—is behind its 5-year average pace. Corn and soybean planting in Missouri has been delayed more than in other states in the District, but cotton and rice planting is ahead of normal. Emergence of the major crops is also behind its normal pace throughout the District.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew at a sluggish pace since the last report. Decreased activity was noted in tourism, services, residential construction and real estate, and agriculture. Modest increases in activity were noted in consumer spending, manufacturing, energy, mining and commercial real estate. Labor markets were flat overall, while wages increased moderately. Significant price increases were noted for some metals, food, fertilizer, airline tickets and fuel.

Consumer Spending and Tourism

Overall consumer spending was soft. A bank director noted that restaurant sales were down from a year ago. Same-store sales at a major Minneapolis-based retailer are estimated to be flat in May compared with a year earlier. Recent sales and traffic at a Minneapolis area mall were on par with last year's relatively high levels, according to the mall manager. Recent sales were level to up slightly compared with a year ago at a Montana mall, while Montana bank directors noted that sales at a variety of retailers in western Montana were generally flat. A North Dakota mall reported that April sales were up 4 percent compared with a year ago; traffic was strong over Memorial Day weekend. Traffic from Canada to District retailers near the border continued at a strong pace; sales of used cars to Canadians have increased substantially. Recent motor vehicle sales at a South Dakota dealer were up from a year ago.

Spring tourism was slow in a number of areas due to cool, wet weather, but officials were cautiously optimistic for the summer season. Visits to northwestern Wisconsin were down from a year ago, but tourism businesses are anticipating a solid summer season, according to a chamber of commerce representative. Tourism activity was slow over Memorial Day weekend due to cold weather in western South Dakota. An official in Montana noted that advanced reservations related to summer travel were strong. A representative of a Minnesota-based travel agency noted that corporate travel sales were up, while leisure travel was down from a year ago.

Services

Activity in the professional business services sector contracted slightly. Preliminary results of the Minneapolis Fed's annual survey of professional services companies in May showed that profits and employment decreased from a year ago and are expected to remain

flat over the next year. Respondents indicated that higher input costs and selling prices are pervasive across the sector.

Construction and real estate

Commercial construction activity increased slightly since the last report. Developers were preparing to break ground on a 185-acre research complex in Sioux Falls, S.D., and a number of new hotels were under construction. Residential construction decreased. Units permitted for construction in April fell 67 percent from a year earlier in the Minneapolis-St. Paul area and 37 percent in Sioux Falls.

Commercial real estate was up modestly. The western portion of the District continued to expand. Mixed reports were noted in the Minneapolis-St. Paul area as warehouse activity increased, but recent office and manufacturing absorption was down. Market conditions for residential real estate continued to deteriorate. April pending sales in the Minneapolis-St. Paul area were down more than 6 percent. Home prices fell by almost 4 percent statewide in Wisconsin.

Manufacturing

Overall manufacturing activity increased slightly since the last report. A May survey of purchasing managers by Creighton University (Omaha, Neb.) indicated a mild increase in activity in Minnesota and the Dakotas. Several contacts noted that capital expenditures are increasing in part due to new federal tax incentives. In South Dakota an energy equipment maker plans to expand its research facilities. In North Dakota, a farm equipment manufacturer is expanding its production facility. In Minnesota, a producer of water pumps is increasing capital investment and a technology company is constructing a new production facility. However, a Minnesota manufacturer of commercial construction materials reports somewhat weakening demand over the past two months.

Energy and Mining

Activity in the energy and mining sectors increased since the last report. Robust oil and gas exploration and production continued in the District. A large wind farm expansion was announced in North Dakota. A dual purpose biodeisel plant is planned in Minnesota. Exploration, permitting and construction in the mining industry continued at a solid pace since the last report.

Agriculture

Agricultural conditions weakened since the last report. Cold, wet conditions delayed planting and development of corn and soybeans in the eastern part of the District. Meanwhile, drought conditions were severe in western North Dakota and eastern Montana. The U.S. Department of Agriculture expects corn, soybean and wheat prices to increase, and milk and hog prices to fall in 2008. Both farmers and ranchers are concerned about higher input costs eroding profits.

Employment, Wages and Prices

Labor markets were flat overall with a number of layoff announcements balanced by reports of relatively tight employment in some areas. In Minnesota a medical devices producer recently announced plans to cut 350 jobs and a company that manufactures life vests and water sport products recently announced plans to close a plant that employs over 100 workers. A producer of computer diskettes will close a North Dakota plant that employs 390 workers by the end of the year, earlier than originally planned. The State of Minnesota reported that the percentage of unemployed workers who ran out of unemployment benefits without finding a job was higher than a year ago. Recent business was generally slower at a temporary employment agency in Minnesota compared with a year ago; however, demand to help companies fill full-time openings for existing positions remained relatively strong. In contrast, a number of contacts in the Dakotas and Montana reported difficulty finding qualified workers.

Overall wages increased moderately. Preliminary results of the Minneapolis Fed's survey of professional services companies indicate wages and benefits are expected to increase 2.4 percent per worker over the next 12 months. However, recent total compensation package agreements for skilled construction workers increased 5 percent in Minnesota.

Significant price increases were noted for some metals, food, fertilizer, airline tickets and fuel. Prices for steel and aluminum were up 35 percent and more than 15 percent, respectively, over a year ago with most of the increase occurring in the past six months. A Montana bakery noted that flour prices increased 130 percent over the past three months, which led to a 25-cent to 50-cent increase in the price of a loaf of bread. Phosphate fertilizer prices were almost twice as high as last year, according to a bank director. A major Minnesota-based airline raised ticket prices in May in response to increased fuel costs. In contrast, lumber prices were down more than 10 percent from a year ago.

TENTH DISTRICT - KANSAS CITY

Economic growth in the Tenth District remained modest in early April and May. Overall, consumer spending was flat and below expectations. Manufacturing activity improved slightly due to rising exports. Residential real estate activity rose seasonally and commercial real estate activity held steady. High commodity prices fueled robust gains in energy and agricultural sectors. Labor markets expanded slightly with some firms noting labor shortages. Reports of wage pressures moderated, but input and finished goods prices rose further.

Consumer Spending. Consumer spending remained soft in May, despite solid travel and tourism activity. Retail sales were flat compared to the previous survey period and were below expectations. Store managers expected sales to ease in coming months. Mall traffic remained slow, partly attributed to higher gasoline and food prices limiting purchases of non-essential goods. A few retailers noted weak jewelry sales. After a rebound in March, auto sales slumped, especially for trucks and SUVs, and access to credit tightened. Auto dealers anticipated sales to remain sluggish even with aggressive sales incentives and discounts. Non-profit organizations and social service agencies reported more requests for financial assistance from low-income households. Travel and tourism activity strengthened since the last survey, aided by a lengthened ski season at many resorts. Despite route reductions, air travel remained strong, especially in the Denver market. However, one travel agent was pessimistic about future tourism activity as bookings have slowed with higher fuel costs. Hotel occupancy and average room rental prices moved higher, and restaurants reported an uptick in sales despite a slight increase in menu prices.

Manufacturing. Manufacturing activity improved somewhat since March and early April, but remained sluggish compared to year-ago levels. Export orders strengthened with several firms citing high overseas demand and increased domestic investment by foreign firms. Production and employment levels stabilized while the volume of shipments increased, reducing inventories. Expectations for future factory activity were generally positive, partly due to strong

export demand. Several firms reported that strong sales growth and high capacity utilization were driving plans to increase capital spending. However, plant managers remained concerned that high input prices and transportation surcharges will continue to strain profit margins.

Real Estate and Construction. Residential real estate activity strengthened seasonally from the last survey and commercial real estate activity held steady in late April and May. Realtors, mortgage lenders, and moving companies reported a seasonal pickup in sales that reduced home inventories. Demand for lower priced homes was stronger than demand for high-end homes requiring jumbo mortgages. Still, one realtor noted the market for first-time home buyers has slowed because higher living expenses constrained buyer efforts to save for a down payment. Residential building permits remained well below year-ago levels although multi-family construction remained solid. While home prices continued to edge down in most major markets, prices in rural and energy-intensive areas remained well above year-ago levels. Apartment vacancy rates were down across the District, prompting further rent increases. Commercial real estate construction remained solid since the last survey though the number of sales declined. Commercial vacancy rates edged up and rents stabilized after steadily increasing over the past year. Developers reported commercial real estate prices may decline in some markets where absorption rates are down.

Banking. Bankers reported tighter credit standards and somewhat stronger loan demand than in the previous survey. Demand for residential real estate loans and consumer installment loans increased moderately, while demand for commercial and industrial, commercial real estate, and agricultural loans remained essentially unchanged. Half of respondents reported a tightening of credit standards for commercial real estate loans, about the same fraction as in the previous survey. Just under half of respondents reported tightened standards for commercial and industrial loans, up slightly from the previous survey. Some respondents reported tighter standards for residential real estate and consumer installment loans. Similar to the previous survey, just over half of the respondents said overall loan quality was down from a year ago. However, respondents were somewhat more pessimistic about future loan quality, citing

concerns about consumer and residential real estate loans. Bank deposits were little changed.

Energy. District energy activity continued at a robust pace in April and May. Led by Wyoming, the number of active drilling rigs surged since the last survey period and remained well above year-ago levels. Energy firms planned to expand drilling activity in coming months to meet expected demand. Companies reported that financing and equipment are available, though a shortage of skilled workers, especially geologists and engineers, continued to be a challenge for the industry.

Agriculture. Agricultural conditions strengthened further in late April and May. Recent rainfall across much of the Plains eased drought concerns and improved pasture and growing conditions. Despite weather delays, corn planting was almost complete and soybean planting was in progress. The winter wheat crop was reported in good condition and yields were expected to be higher than last year in Kansas and Oklahoma. Many local grain elevators have suspended offering forward contracts for wheat due to price volatility and hefty margin calls. Livestock producers continued to lose money due to high feed costs. Farmland values continued to post record annual gains and farm equipment sales remained robust. Rapidly rising input costs were expected to trim farm incomes and limit capital spending.

Wages and Prices. Price pressures continued to build since the last survey period but wage pressures held steady. District manufacturers reported that rising raw materials prices, especially for steel and fuel, were contributing to higher prices for finished goods. Many District contacts reported paying fuel surcharges. Farmers reported that higher input costs, especially for fertilizer, chemicals, seed, and fuel, were trimming profit margins. Restaurants were also paying significantly higher prices for food and passing a portion of the increased cost to diners. Retail contacts reported higher selling prices since the last survey and expected further price increases in the coming months. Builders paid higher prices for some construction materials, such as roofing and metal supplies, though lumber prices were flat. District labor shortages persisted, especially for minimum-wage positions and technically skilled workers, but most firms did not plan to raise wages. District hiring announcements continued to outpace layoff announcements.

ELEVENTH DISTRICT—DALLAS

Economic expansion in the Eleventh District continued to soften in late April and May, although activity in regions dominated by the energy industry remained robust. Businesses with national sales reported that economic growth in Texas is stronger than in the rest of the country.

Retail sales growth continued to be weak, and service sector activity softened. Manufacturing was mixed but improved some. Construction and real estate activity weakened further. Financial service firms reported that loan demand is growing faster than deposits. Agricultural activity improved.

Outside the energy industry, record high costs are weighing heavily on profits and leading firms to be less optimistic about the outlook for growth through the end of the year.

Prices. Higher input prices, including those for energy, are pushing up production costs for most products and services. Rising energy costs put upward price pressure on a wide range of chemicals and plastics. Producers report high or rising prices for most raw materials, including copper, coal, steel, titanium and aluminum. A few producers are stockpiling materials to hedge against higher prices. Food prices continued to rise.

These developments are putting upward pressure on selling prices for many products, and some firms are struggling to raise selling prices, increase fees or reduce costs to survive. In the near term, retailers say competitive pressure will remain intense as weaker players go out of business and liquidate inventory. However, retailers say sizable input cost increases are projected and are expected to push up selling prices next year. Selling prices remained soft for most materials used in residential construction because demand is weak and inventories high.

Labor Market. The labor market remained relatively tight. There are still reports of difficulty hiring and skill shortages, such as for engineers, mechanics and administrative positions. There has been little change in wage pressures, with the notable exception of increases for some truck drivers. However, some firms said they have already experienced or anticipate upward pressure from lower income workers who

commute long distances and are being squeezed by high fuel costs. Several industries noted an increase in health insurance costs.

Manufacturing. Producers of materials used in home construction—such as brick, stone and lumber—reported a slight uptick in activity, but overall demand remained weak and significantly below last year. Inventory levels are high for some products, and those manufacturers are cutting back on production and adjusting workforce levels. While brisk and above year-ago levels, demand for commercial construction materials continued to soften and is expected to steadily weaken. High prices are damping sales for some metals. Fabricated metals producers say smaller construction projects are going forward but big deals that require a significant amount of leverage are not. Domestic steel sales are slowing, but there is strong demand from outside the United States, and producers say it has become more profitable to export than to sell domestically.

Overall semiconductor sales have been flat over the past thirty days. Demand from Europe and Asia remained strong, but U.S. sales have been weak. Demand for solar technology is hot, but much of the production is occurring overseas. Semiconductor equipment producers say recent signs of stabilization suggest the worst of the downturn in this cycle may be over.

Sales of food products were unchanged, although higher prices have changed the mix of products and customers. Demand for transportation equipment remained strong, with good sales to supply the defense, aircraft and energy industries. Improved margins and an end to the maintenance season have led refiners to ramp up production and capacity utilization. Chemical production has also increased. Weak domestic demand has been partly offset by a surge in exports that has created a shipping logjam. Export demand is strongest for chemicals, such as ethylene, that are domestically produced with natural gas and have a cost advantage over oil-based production in other parts of the world.

Retail Sales. Gains in retail sales continued to be slower than last year. Retailers said growth has been weaker than they hoped because high fuel costs are limiting discretionary spending. Stores that extend credit reported a deterioration in timely payments. Stimulus checks have increased spending at discount

stores. Contacts say shoppers are looking for value, and sales growth is expected to remain weak for several months.

Automobile sales weakened slightly and remained below year-ago levels. Inventories have increased for trucks and SUVs but are very low for fuel-efficient vehicles.

Services. Demand for temporary staffing services was flat over the past six weeks at about the same level as a year ago. Orders were strongest for professional and technical workers in IT, accounting, energy and engineering services. Activity from the manufacturing sector edged up, but demand for entry level financial services and commercial real estate have slowed some.

Legal activity continued to be strong, but the mix of work suggests slower economic activity. Real estate transactions declined, but there has been an increase in litigation and bankruptcy work. Oil and gas-related activity also remained brisk. The accounting industry reported moderate sales.

Rising fuel costs are straining the transportation industry. Intermodal shipping volumes continued at a level that is softer than earlier this year and a year ago. Exports have increased but not enough to offset the substantial decline in imports. Truckers say diesel prices have become too high to be fully covered by fuel surcharges and, in some instances, drivers have stopped their trucks or are leaving the industry. A few manufacturers said a shortage of truckers has caused delayed shipments and inventory buildup. The rate of contraction in small parcel cargo shipping is slowing. Demand is stronger for leisure air travel than for business. International travel is stronger than domestic. Air fares are rising, and some carriers have reduced capacity in anticipation of reduced travel.

Construction and Real Estate. Housing activity continued to decline. New and existing home sales fell further, and some builders are abandoning planned developments. Existing home inventories inched up, but remained low enough to keep median home prices from falling by much. Apartment demand was solid, but there is increasing concern about oversupply in Houston and Austin, where construction activity has spiked.

Office demand slowed, except in areas dominated by the energy industry, such as Houston and Fort Worth. Industrial demand continued to weaken. Commercial construction levels are still high, but contacts

say there are few new projects being initiated because it is difficult to obtain financing, particularly for large investments.

Financial Services. Partly reflecting reduced credit availability at nonbank lenders, loan demand at banks is growing faster than deposits, and banks have tightened standards to increase interest rate spreads. Community banks reported a strong increase in real estate loan requests because other lenders are no longer funding these borrowers. Overall, past due loans remain low, and there has been no significant decline in credit quality, although respondents expect deterioration.

Deposit growth has been weaker than desired, and banks are turning to other sources of liquidity. Contacts reported some improvement in bank funding in recent weeks, with more access to a broader maturity range, but said conditions are not yet normal, and funding is expensive. Respondents indicated that there currently is sufficient liquidity to finance quality deals, but expressed some concern that this may not continue into the future.

Energy. Optimism about high oil and natural gas prices has pushed drilling to the highest level in 20 years. So far, supplies of equipment and services have been sufficient to keep their price increases at bay.

Agriculture. Rain improved conditions in most areas, but poor moisture in the Texas High Plains has led to lower projections for wheat yields. Livestock are in good condition. Supplemental feeding continued in drier areas. High fuel and fertilizer costs are leading farmers to plant soybeans instead of corn. Costs are rising, and farmers hope prices will be favorable at harvest time. Producers say market volatility has made it harder to use forward contracts to lock in crop prices.

TWELFTH DISTRICT–SAN FRANCISCO**Summary**

Economic activity in the Twelfth District appears to have changed little during the survey period of late April through the end of May. Upward price pressures were subdued for most products but remained severe for food and energy-intensive items, while wage pressures continued to ease in some sectors. Retail sales were weak and demand growth slowed for service providers. Manufacturing activity held steady or grew slightly on net, while producers of agricultural and natural resource products saw strong sales. Housing markets remained exceptionally weak despite scattered reports of improved sales, and demand for commercial real estate continued to soften in some areas. Banks and other financial institutions reported that loan demand was largely unchanged or fell slightly on net, and credit standards tightened further.

Wages and Prices

Price inflation was modest for most products but remained high for food and energy-intensive items. Final prices for many retail items were largely stable or down. However, continued price increases for some commodities and raw materials, such as steel and copper, are increasingly being passed through to final prices for various goods. In addition, many providers of transportation services have been passing on higher fuel prices through surcharges.

Upward wage pressures were limited, with contacts noting only small increases in overall labor costs. Reports indicated additional easing in wage pressures in sectors that have seen reduced labor demand, such as construction, finance, retail, and real estate. However, wage increases remained rapid for skilled workers in selected sectors, such as computer services.

Retail Trade and Services

Retail sales held steady or softened further, with many respondents pointing to increases in food and energy prices as a restraining factor on sales of other products. For department stores and many smaller retail outlets, sales remained at low levels, causing inventories to rise and resulting in aggressive price discounting. Demand was firmer for discount chains than for traditional department stores, and demand for consumer electronic products remained strong. Gasoline sales volumes were below their levels from 12 months earlier and continued to fall during the survey period. Demand remained very weak for new and used vehicles, especially for larger vehicles with low fuel efficiency, for which sales were described as “dismal.”

Demand growth for service providers slowed further on net. Growth continued at a moderate pace for providers of health-care services. Demand weakened for providers of advertising and professional services, although one contact noted that demand for business enterprise software has “stabilized” after declining in earlier reporting periods. Providers of real estate services, such as title insurance, faced very low levels of activity and continued to reduce employment counts. The tourism industry saw mixed but somewhat weak performance on net. Hotel bookings and visitor spending were characterized as weaker or declining in Southern California and also in Hawaii, where recent airline bankruptcies reportedly have held down visitor counts; in contrast, hotel occupancy rates in parts of Alaska have been at record levels.

Manufacturing

District manufacturing activity appeared to hold steady or grow slightly on net during the survey period of late April through the end of May. New orders have slowed for makers of commercial aircraft and parts, although production activity remained at high levels due to existing order backlogs. Semiconductor manufacturers continued to report moderate growth in

revenues accompanied by balanced inventories and high rates of capacity utilization.

Manufacturers of heavy equipment saw largely stable demand on net, with strong sales of farm equipment noted. By contrast, makers of wood products continued to scale back production activity and employment. Petroleum refiners had been operating at relatively low utilization rates, but production activity rose recently. Food manufacturers saw further growth in output and sales, but high commodity and fuel prices have crimped profit margins.

Agriculture and Resource-related Industries

Demand and sales grew at a strong pace for agricultural items and natural resources. Domestic and overseas sales remained robust for a variety of tree and row crops and for livestock, and profits are expected to be abundant this year despite some offset due to high prices for inputs such as seeds and fertilizer. Oil and natural gas extraction expanded further in response to growing demand, although these activities reportedly were constrained slightly by tight availability of some types of equipment and materials.

Real Estate and Construction

Housing markets remained exceptionally weak during the survey period, while conditions in nonresidential real estate markets softened a bit further. Unsold inventories of new and existing homes remained at unusually high levels in most areas, causing further price drops, especially in parts of California, Arizona, and Nevada that also have seen sharp increases in home foreclosures. Scattered reports pointed to a recent pickup in home sales, which was attributed to increased affordability due to lower prices. On the nonresidential side, conditions weakened a bit further in some areas, with contacts noting reduced leasing activity and lower sales prices for commercial properties in the San Francisco Bay Area and further increases in vacancy rates for commercial property in Las Vegas and San Diego.

Financial Institutions

District banking contacts reported that lending activity was largely flat or fell slightly relative to the previous survey period. Reports on commercial and industrial lending suggested a slight easing overall, with some contacts reporting weak demand and others reporting little change. Lenders continued to tighten credit standards, which remained especially strict for residential mortgages and construction loans. Credit quality eroded a bit further, mainly for loans related to the housing sector, with the most significant adverse impacts on asset portfolios noted for smaller community banks.