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Summary of Commentary on \_\_\_\_\_

# Current Economic Conditions

By Federal Reserve District

April 2008

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS  
BY FEDERAL RESERVE DISTRICTS

APRIL 2008

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## SUMMARY\*

Reports from the twelve Federal Reserve Districts indicate that economic conditions have weakened since the last report. Nine Districts noted slowing in the pace of economic activity, while the remaining three—Boston, Cleveland, and Richmond—described activity as mixed or steady.

Consumer spending was characterized as softening across most of the country, with some Districts reporting year-over-year declines in retail and/or auto sales. In contrast, tourism was generally described as strong, with a number of Districts noting particular strength in foreign visitors. Reports on nonfinancial services varied by District: demand for transportation services was generally characterized as weak, while business and health services continued to expand; other service industries were said to be mixed. Trends in manufacturing also varied across Districts. Reports on real estate and construction were generally anemic for the residential sector; activity in the commercial sector has slowed. Financial institutions in many Districts indicated some deceleration in consumer loan demand, tightening in lending standards, and deterioration in asset quality. Most Districts reported improved conditions in the agricultural sector and robust activity in the energy industry.

Labor markets were mostly described as weakening since the last report, though a few Districts reported ongoing shortages of skilled workers and some Districts noted wage pressures. Increases in input costs were widespread, accompanied by somewhat smaller rises in selling prices.

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\* Prepared at the Federal Reserve Bank of New York and based on information collected on or before April 7, 2008. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

## **Consumer Spending and Tourism**

Consumer spending weakened in most, but not all, Districts since the last report. In particular, automobile sales were generally reported to be flat or declining. Vehicle sales were described as unchanged or falling in the Philadelphia, Cleveland, Atlanta, and Dallas Districts and were characterized as weak in the Richmond, Atlanta, Chicago, and San Francisco Districts. However, Kansas City reported that auto sales rebounded in March, though they remained lower than a year earlier. Non-auto retailers reported that sales were sluggish or declining in ten Districts. Elsewhere, Boston noted mixed sales trends, and New York reported a modest pickup since the last report. Chicago, San Francisco, and, to a lesser extent, Philadelphia noted relative strength in demand for luxury goods.

Retail inventories were generally reported to be steady or rising. Automobile inventories were said to be accumulating in the Philadelphia and Atlanta Districts. Among non-auto retailers, despite weakness in sales, only a few reported any notable inventory accumulation; Atlanta cited some increase in inventories, while the Richmond and San Francisco Districts noted that some inventory accumulation has prompted retailers to cancel orders.

Despite the general weakness in consumer spending, tourism was generally described as robust, with that strength, in a number of instances, attributed to international visitors. The Boston, New York, Atlanta, Minneapolis, and Kansas City Districts reported strong tourism activity, while the Richmond and Chicago Districts described that sector as mixed, with pockets of strength. San Francisco indicated mixed but generally weak tourism activity. Reports from Boston, Atlanta, Chicago, and Minneapolis specifically cited foreign visitors as a source of strength.

### **Nonfinancial Services**

Activity in the service sector was mixed across Districts and across industries since the last report. Looking at the service sector in broad terms, Boston, Richmond, and Minneapolis reported some revenue growth; New York and St. Louis noted some softening; and San Francisco saw some deceleration. A number of Districts reported weakness in transportation services: New York, Philadelphia, Cleveland, Atlanta, and Dallas described shipping and freight activity as sluggish or weakening, with New York attributing the softening to declining import volume at the port. Richmond ports also noted weakening in imports but robust export activity. There were scattered reports of continued expansion in some other service industries, such as business services (Boston, Philadelphia, St. Louis, Minneapolis) and health care (Chicago, San Francisco).

### **Manufacturing**

Manufacturing activity was varied, with some Districts reporting a slight increase in activity, some indicating weaker activity, and several noting that activity was mixed or had held steady. Chicago, Boston, and Richmond reported that activity was rising, but not substantially, while New York, Kansas City, Philadelphia and Dallas all reported that activity had weakened. St. Louis and Cleveland said that activity had held steady, while Atlanta, Minneapolis and San Francisco saw activity as mixed.

Demand was reported as strong for aerospace, aircraft, and defense goods, as well as for steel and food. Automakers increased production modestly in the Cleveland and Chicago Districts, but vehicle production declined in the Atlanta district. The Philadelphia District found that that demand for metals and machinery had increased. Many Districts cited strong exports generally. Most Districts saw a continued slide in the demand for goods related to

residential construction. Excess capacity led to production declines in the high-tech industry in the Dallas District, and Chicago reported weak demand for heavy equipment. Uncertainty about economic conditions is leading to a varied, but generally subdued, outlook for manufacturers.

### **Real Estate and Construction**

Housing markets and home construction remained sluggish throughout most of the nation, though there were few signs of any quickening in the pace of deterioration. Ongoing weakness in housing markets, in general, was reported in almost all Districts. Sales activity was generally reported to be declining in the Boston, New York, Philadelphia, Atlanta, St. Louis, Minneapolis, Dallas and San Francisco Districts, while Kansas City and Chicago noted slack demand and excess inventories. On the other hand, the Cleveland District saw some pickup in activity, while Richmond and Atlanta reported some pockets of improvement; Boston, Atlanta, and Chicago cited some recent pickup in traffic or buyer inquiries. New residential construction was reported to have remained at depressed levels, and none of the Districts reported any pickup since the last report.

Declines or downward pressures in selling prices were specifically reported in the Boston, New York, Philadelphia, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, and San Francisco Districts. In particular, New York and San Francisco noted some incipient price declines in areas that had previously shown resilience—respectively, New York City and the Pacific Northwest, as well as Utah. On the other hand, the Cleveland District noted some stabilization in home prices.

Commercial real estate markets were generally reported to be steady or softening in most areas. Weaker conditions in the rental market were reported in eight Districts: New

York, Philadelphia, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and San Francisco. On the other hand, the leasing market was found to be steady in Boston, Kansas City and Dallas. Reports on commercial development were mixed with activity having weakened in the Philadelphia, Atlanta, and San Francisco Districts, but having increased in the Cleveland, Chicago, and Kansas City Districts. St. Louis characterized commercial construction as strong. However, sales of commercial properties were generally indicated to be sluggish, while prices were said to be under downward pressure. The Boston, Philadelphia, Minneapolis, Kansas City, Dallas, and San Francisco Districts all reported weakness in commercial real estate sales and prices.

### **Banking and Finance**

Banks reported mixed trends in lending activity, with fairly widespread slowing in the consumer segment but some stabilization, at low levels, in residential mortgage activity. Overall lending activity was reported to have increased in the Philadelphia, Richmond and St. Louis Districts, but to have declined in the New York, Chicago, Kansas City and San Francisco Districts. Dallas described lending activity as steady but soft. Lending activity for new home mortgages, though generally characterized as sluggish, was reported to have stabilized in the New York, Cleveland, Chicago, and San Francisco Districts. Consumer loan demand, however, weakened in a number of Districts: New York, Atlanta, Chicago, and Kansas City.

Credit quality was reported to have deteriorated, on balance, since the last report. Increased delinquency rates were noted by New York, Philadelphia, and Cleveland, while Kansas City reported that loan quality remained lower than a year ago. Widespread tightening in credit standards was reported, especially on residential and commercial real



estate loans. In general, banks were reported to be tightening credit standards in the New York, Cleveland, Atlanta, Chicago, Kansas City, Dallas and San Francisco Districts. In addition, Boston noted that standards remain tight on commercial mortgages, while Philadelphia indicated that banks are limiting lending in this category. Richmond indicated tighter standards on residential mortgages.

### **Agriculture and Natural Resources**

Agricultural reports were generally upbeat, with most respondents citing improved growing conditions and favorable pricing. Although drought conditions continued to persist in some areas of the Atlanta and Richmond Districts, soil moisture was adequate for spring planting, in part, due to increases in precipitation in March and early April. Reports from the Chicago, Kansas City, and St. Louis Districts indicated that cool temperatures, dry conditions, or flooding toward the end of March damaged some winter crops and delayed field preparations for spring plantings. Farmers in the Chicago, Kansas City, Minneapolis, and St. Louis Districts all reported plans to shift production away from corn toward soybeans in 2008, in part, because of favorable soybean prices and elevated corn production costs. Some farms in the San Francisco District expressed concern over prolonged drought conditions and pending cuts in water deliveries. Dairy and livestock producers in the Chicago, Dallas, Kansas City, and San Francisco Districts expressed concern that increased feed costs had reduced margins.

Districts reporting on energy continued to see robust levels of activity and steady to increasing prices. In the Dallas District, drilling remained strong and natural gas production has continued to increase. In the Minneapolis District, expansion of the mining industry was

underway, while oil and gas exploration remained robust. In general, contacts contended that increased demand for energy was expected to continue to boost activity and prices.

### **Labor Markets**

Despite some variation across Districts, employment levels appeared to be little changed, on balance, from recent months. Some weakening in the job market was reported in the New York, Atlanta, Chicago, St. Louis, and Minneapolis Districts. Cleveland reported flat employment levels, while Richmond indicated mixed trends. Boston and Kansas City indicated modest increases in employment, with some deceleration indicated in the latter. Firms in the Philadelphia, Atlanta, and Minneapolis Districts reported layoffs, reductions in work hours, or hiring freezes in response to current or expected slowing in economic activity.

Despite the general softening in their markets overall, Atlanta and Chicago noted scattered shortages of skilled workers in various service industries. Dallas reported relatively tight labor market conditions overall and cited shortages of managers and engineers, as well as farm workers. Staffing and temp agencies reported mixed trends in labor demand: New York, Richmond, and Chicago reported some softening, whereas Cleveland and Dallas note some pickup. In the financial services industry, some weakening in employment trends was reported in the New York, Chicago and St. Louis Districts, and San Francisco noted job losses in firms servicing the real estate industry.

### **Prices**

Business contacts across all Districts continued to report increases in input costs and output prices. In particular, price increases were consistently reported for food products, fuel and energy products, and many raw materials. More specifically, increases in the price of chemicals, metals, plastics and other petroleum-based products were commonly cited. Most

manufacturers have or are planning to increase prices in response to rising input costs, while the response of service firms has been more mixed, in part due to differences in competitive pressures. On balance, input costs have risen more rapidly than output prices, putting pressure on margins for many firms. Most Districts reported little change in retail price inflation, though Richmond and San Francisco noted some moderation.

Most business contacts reported that wages were unchanged or were increasing moderately in all Districts. Business contacts in the Atlanta, Chicago, Cleveland, Dallas, Philadelphia, and San Francisco Districts indicated that there has been some upward wage pressure for skilled labor in some sectors that continue to experience shortages.

## FIRST DISTRICT – BOSTON

Reports from business contacts in the First District continue to be mixed, with most expressing concern about the near-term outlook. Retail respondents are seeing activity slow, although some remain ahead of year-earlier sales levels; tourism is fairly robust in the region. Contacted manufacturers mostly report revenue growth and say they are uneasy with high costs and a slowing U.S. economy; they are raising their prices where possible. Real estate markets remain soft.

**Retail and Tourism**

Retail respondents in the First District cite mixed results for the late winter months, with the early Easter holiday adding uncertainty about sales trends. A few contacts note that while same-store sales are up overall, they are experiencing a slowdown in the rate of growth. Despite the possibility of a worsening economy, one respondent credits a new business plan for her optimism about spring sales. Another contact says that although business is down, they are encouraged by double-digit growth in customer count. Sales of housing-related products (kitchen, bath, flooring, bedding, lumber) remain soft.

Inventory levels and employment are generally stable. Capital spending is mixed, with the majority of retailers not planning to cut back. One retailer said, “you can start a negative trend by pulling back, and we don’t want to do that.” A majority of First District respondents cite varying degrees of price pressure, with several specifically mentioning rising commodities prices as well as fuel-related costs. Selling prices are mostly steady, with modest increases passed along where possible.

Tourism and travel in the First District is strong, with particular emphasis on international tourism. Due to the favorable exchange rate and pent up demand, there has been a large increase in international travelers, particularly from the UK, Ireland, Germany, and Japan. However, there is concern about the impact on domestic travel of the unsettled economy, weak consumer confidence, high fuel costs, and the rising price of food. Business and conference travel is expected to remain strong in the near term. New England hotels and resorts do not seem to be scaling back on capital spending plans as new properties come online and many existing properties expand throughout the District.

Overall, First District retailers are cautious yet hopeful in their outlook. One contact notes that “the recession probably started in December for retailers,” yet most respondents say that if the economy is in a recession, they expect it to be shallow and anticipate that sales will start to pick up by the end of the year. One retailer said that “it’s just a question of the consumer getting through the next few months.”

**Manufacturing**

Most manufacturers and related services providers headquartered in the First District report that first quarter sales were up from a year ago, but they do not view the trends as robust or sustainable. Many contacts report an uneven start to 2008, with sales of some items or during some months hitting soft patches. A few office and IT equipment firms say their business customers are holding off on placing

orders. Suppliers to the home construction industry indicate that their sales remain in the doldrums. In contrast to the general picture, demand for aircraft components and biopharmaceuticals continues to grow strongly, and contacts generally report that overseas sales remain relatively strong.

Many manufacturers continue to voice concerns about high or rising materials costs, especially metals, plastics and other petroleum derivatives, chemicals, vegetable oils, and grains. Some also mention elevated fuel and transportation costs. Most of the affected respondents have raised prices since the beginning of the year, usually in the range of 4 percent to 8 percent, and some envision further price hikes. Manufacturers generally report that customers are not resisting paying higher prices. However, some firms are experiencing margin pressures because they sell into sectors accustomed to long-term pricing contracts or with cheaper supply alternatives.

Most contacted manufacturers are holding their U.S. headcounts steady or making gradual cutbacks as they implement efficiencies. Biotech firms are continuing to add U.S. jobs, however. Average pay increases generally are in the range of 3.5 percent to 4 percent. More than one-half of the manufacturing respondents are planning to increase U.S. capital spending in 2008. Projects include capacity expansions and product or service enhancements. Regardless of their investment plans, contacts say that access to capital is not a binding constraint on their spending.

Almost all firms mention that they are assessing how the weakness in the U.S. economy will affect their business for the remainder of the year. They particularly express concerns about deterioration in consumer spending and the financial services industry.

### **Selected Business Services**

First District consultants report first quarter revenue growth ranging from 5 percent to 25 percent over a year ago. Demand for consulting services from the airline and media and entertainment industries is robust; however, financial services continues to weaken and demand from the telecom and technology industries has softened.

The majority of contacted firms are increasing prices modestly, while the remainder are not changing bill rates, citing competitive pressures. Several respondents note increased travel costs and one reports a number of their foreign vendors are increasing Euro prices. Headcounts at the majority of responding New England firms are growing, but at a slightly slower rate than revenues. One contact recently scaled back hiring plans. Most respondents are increasing wages 5 percent on average in 2008.

While all New England business services respondents express concern about the economy, the majority are cautiously optimistic, expecting steady revenue growth in the first half of 2008.

### **Commercial Real Estate**

The conditions and trends in the commercial market are little changed on balance since last report. Credit remains very tight; for example, life insurance lenders continue to ration credit, raising

their interest rates by 50 basis points in recent weeks and pushing loan-to-value ratios down to 50 percent. Conservative underwriting and credit rationing are said to reflect expectations of declining commercial real estate property values in the coming two to three quarters, as well as shortfalls in capital reserves due to lower-than-expected loan prepayment rates. In the greater Boston area there have been very few sales transactions and little evidence that sellers are offering significant price discounts yet. As last time, a mutual bank in Boston with a modest commercial portfolio continues to experience very high demand for loans, including loans for retail acquisitions as well as new construction of apartment buildings, office space, and retail outlets. Some of this demand is coming from larger banks looking to fund large deals without putting up as much of their own capital.

The leasing market is holding steady in most parts of the region. The vacancy rate for prime downtown Boston office space is estimated to be 10 percent. The vacancy rate edged up from 8 percent to 9 percent in downtown Providence, and remained stable in Portland. Asking rents continue to rise in Boston, but contacts warn that contracted rents may be below asking rates. Rents are flat or slightly down in the rest of the region. The outlook is mixed, but biased toward the negative side. As last time, the main concerns are that leasing fundamentals will deteriorate—some contacts mention an impending recession—and that credit will remain scarce.

### **Residential Real Estate**

Residential real estate markets in New England continue to show declining sales and prices in early 2008. Home sales decreased 24 percent year-over-year in January in Rhode Island, 20 percent in February in Maine, and 23 percent in February in Massachusetts, while Massachusetts condo sales declined almost 35 percent year-over-year. Connecticut and New Hampshire saw home sales declines of 27 and 24 percent, respectively, year-to-date compared to the same period last year.

Median home prices in Massachusetts decreased about 5 percent year-over-year in February while median condo prices decreased almost 7 percent; Connecticut and New Hampshire's price declines were similar. Rhode Island home prices dropped 13 percent in January, while Maine home prices decreased 2 percent in February from a year earlier.

Several contacts say that lack of consumer confidence continues to be the main factor keeping a damper on the market, as many potential buyers wait to see if prices will decline further. However, contacts in Massachusetts report a recent increase in traffic, especially at open houses.

## SECOND DISTRICT--NEW YORK

The Second District's economy has shown further signs of weakening since the last report. Manufacturers report that business activity tailed off substantially in February and early March and has been flat since. Import volume at the Port of New York is also reported to have slowed noticeably. Contacts outside the manufacturing sector generally indicate continued softening in business activity and little change in employment levels. More broadly, a major employment agency indicates some slowing in hiring activity since the last report. Retailers indicate a moderate pickup in business in March, after a disappointing February; sales are said to be on or close to plan.

Tourism activity in New York City has held steady since the last report. Housing markets are reported to have softened further, including Manhattan's previously resilient co-op and condo market. Office markets across the New York City area showed some signs of slackening in the first quarter, with vacancy rates edging up and asking rents decelerating. Finally, bankers report further weakening in loan demand, more pronounced tightening in credit standards, and widespread increases in delinquency rates across the board.

**Consumer Spending**

Retailers report that sales picked up somewhat in March and were back on or close to plan, following a disappointingly weak February. As in recent months, sales were relatively strong in New York City. Overall, sales are reported to be little changed from a year earlier, and inventories are said to be at or near desired levels. Retail selling prices are reported to have remained steady since the last report, but one contact foresees some significant increases in acquisition costs on the horizon.

Consumer surveys point to further erosion in confidence: Based on the Conference Board's survey of Middle Atlantic residents, consumer confidence declined for the sixth consecutive month in March, falling to its lowest level in nearly 12 years. Similarly, Siena College's survey of New York

State residents shows sharp declines in consumer confidence across all metro areas in the first quarter; over the past year, the steepest declines, by far, have been in the New York City and Albany metro areas.

Tourism activity in New York City has been steady since the last report, with the level of activity still fairly high. While Manhattan's hotel occupancy rate was up 3 percentage points from a year earlier in February, room rates edged down in the month to a level 9 percent higher than a year earlier, compared with double-digit percentage gains throughout 2007. Broadway theaters report that attendance was up 3 percent from a year earlier in March—about the same as in February—but that revenues were up less than 2 percent, reflecting a slight decline in the average effective ticket price.

### **Construction and Real Estate**

Housing markets in the District have continued to cool off. Manhattan's co-op and condo market showed clear signs of cooling in the first quarter, according to a major appraisal firm: unit sales fell 30 to 40 percent from a year earlier, while the number of listings rose, although inventories remained fairly tight at the high end of the market. The average reported transaction price did increase, but this was attributed to relatively brisk sales at the high end of the market (largely newly-built luxury units). Noticeable declines in sales are also reported in Brooklyn, Queens and Long Island. Northern New Jersey's housing market is reported to have stabilized, but at low levels. An industry contact notes that buyer traffic is light, and that many prospective buyers are hesitant, waiting for prices to decline further. The number of listings has increased, and, in contrast with Manhattan, the high end of the market has been accumulating inventory at a more rapid pace than the rest of the market. The "active-adult" segment is noted to be particularly slack, reflecting above-average inventories and particularly weak demand. Prices for new homes are estimated to be down as much as 20 percent from a year ago, while prices for existing homes are seen to be off 15 percent from their peak levels. Finally, New York State Realtors indicate further marked declines in the single-family market in February: the median selling price is reported to be down nearly 12 percent from a year earlier, while unit sales are reported to be down 19



percent, with some of the sharpest drops in the New York metro area.

Commercial real estate markets have also slackened. Vacancy rates rose moderately throughout the New York City metropolitan area, led by somewhat large increases in Central New Jersey and Westchester County. Asking rents on Class A properties rose moderately in Manhattan and Fairfield County, though at a slower pace than in 2007; rents were flat to down slightly in Long Island, Westchester and northern, as well as central, New Jersey.

### **Other Business Activity**

A major New York City employment agency, specializing in office jobs, reports that hiring activity weakened in March and improved only modestly in early April. On the supply side, this contact reports seeing somewhat more job candidates recently let go from the financial sector than in February, but indicates that there are still relatively few such applicants. Large Wall Street firms are reported to be hiring only sporadically, and legal firms have become more patient in hiring; some hedge funds continue to hire, while others have pulled back.

New York State manufacturers report that business activity weakened noticeably in February and early March, before leveling off in early April. Contacts also report further acceleration in prices paid but only modest increases in selling prices. Overall, manufacturers anticipate little change in their employment levels over the next year. A major shipping terminal at the Port of New York reports that import volume has slowed noticeably in early 2008: after 6-7 percent gains in 2007, the volume of incoming containers is running flat in early 2008, compared with a year earlier. In general, non-manufacturing firms in the District report continued weakening in general business activity and little change in employment levels; these firms also continue to rein in capital spending plans somewhat.

### **Financial Developments**

Bankers report weakened demand across all loan categories except residential mortgages, where demand remained unchanged. The decrease in demand was most widespread in the consumer loan

category, where close to half of the bankers surveyed report lower demand, while just one in six report higher demand. Bankers do report an increase in refinancing activity, on net. Respondents indicate widespread tightening of credit standards across all categories. No bankers reported eased standards for any type of loan. Reports on the spreads of loan rates over cost of funds were split across the consumer and commercial loan groups. Bankers reported narrowing spreads for consumer loans and residential mortgages. For commercial mortgages and commercial & industrial loans, bankers indicated no change in spreads. Respondents indicate increased delinquency rates in all loan categories; overall, reported increases are now more widespread than at any time in at least 13 years of this survey.

## THIRD DISTRICT – PHILADELPHIA

Business activity in the Third District, on balance, appeared to soften further in March, although some sectors made slight gains. Manufacturers reported declines in new orders and shipments, overall. Retailers generally reported sluggish sales, with many posting year-over-year decreases. Auto sales continued to fall. Bank lending has continued to increase moderately. Residential real estate sales and construction remained well below the pace of a year ago. Commercial construction activity remained slow. Service-sector firms gave mixed reports; some have had modest growth, but others have experienced declining business. Reports of increases in input costs and output prices were about as prevalent in March as they were in February. Wage increases were reported to be moderate.

The outlook among Third District businesses varies. Manufacturers' forecasts have improved somewhat since the last Beige Book. On balance, they expect increases in shipments and orders during the next six months. However, retailers have generally made further downward revisions to their 2008 forecasts, and some are uncertain that sales will turn up before the year comes to a close. Auto dealers expect sales in 2008 to be below those of 2007. Bankers anticipate slow expansion in overall lending but expect further deterioration in credit quality. Residential real estate agents expect sales to continue to be slow through the rest of the year. Contacts in commercial real estate anticipate slower leasing activity and fewer building sales this year compared with last year.

**Manufacturing**

Third District manufacturers reported falling shipments and new orders, on balance, in March compared with February. Around one-fourth of the manufacturers surveyed noted decreases, and around one-fifth noted increases. Manufacturers also reported a drop in order backlogs, on balance. Increased demand for their products was reported by producers of metals, metal products, and machinery. Decreased demand was noted by producers of apparel, furniture, and industrial materials. Regional manufacturers' assessments of current business conditions varied greatly, with some reporting "quite good" business, while others reported "low demand." One contact noted that the trend in new orders was "very spotty," and another said the "spectrum of client confidence ranges from optimism to gloom."

The outlook in the Third District manufacturing sector has turned positive, on balance, since the last Beige Book. One-third of the manufacturers polled in March expect new orders and shipments to turn up during the next six months, and one-fourth expect further declines. However, capital spending plans at area manufacturing firms remain weak, with no increases in spending planned, on balance.

### **Retail**

Retailers in the Third District generally reported continued sluggishness in sales in March, and many stores have posted year-to-year decreases in recent weeks. Most store executives said consumer confidence has dropped significantly. Sales have slipped for nearly all lines of merchandise and for all types of stores. Stores oriented toward middle- and lower-income shoppers appear to be experiencing a greater weakness in sales than those serving upper-income shoppers. An executive at a large mid-price retailer said, “our consumer has pulled out of the market.”

The outlook among retailers in the District is not positive. The early response to spring merchandise, according to a department store chain, “is not looking good.” Several store officials said they have made further downward revisions to their sales forecasts for the year, and most are limiting inventories. Many of the retail executives contacted for this report also expressed concern about growing difficulties in financing their operations, noting recent reductions in the availability of both short-term credit and long-term financing.

Auto dealers in the region generally reported a continuing downward sales trend in March. Inventories have increased with the sales slowdown, but dealers have been limiting restocking. Dealers in the region have reduced their forecasts for the year, and the consensus is that sales are unlikely to improve much, if at all, from the current rate.

### **Finance**

Total outstanding loans at Third District banks rose moderately in March across major credit categories. Banks and other financial institutions making home mortgage loans reported a slight pickup in originations, on balance, in March compared with February. A majority of the new loans are conforming mortgages that have been sold to the national mortgage agencies, although, according to one contact, “gold-plated” jumbo mortgages are being made and retained,

albeit at higher rates and lower loan-to-value ratios than heretofore. Bankers said they are actively seeking to expand commercial loan portfolios but are being more selective in evaluating potential borrowers, and they are limiting commercial real estate lending. Banks in the District are expanding personal lending. Most bank contacts indicated that asset quality overall continued to weaken, although most of those surveyed for this report said increases in delinquencies and chargeoffs have been moderate. Looking ahead, bankers generally foresee slow growth in overall lending during the rest of the year, and they expect some further deterioration in credit quality before loan performance measures begin to improve.

Banks and other financial institutions continued to report frictions in secondary markets. According to one contact, “liquidity is scarce and trading is difficult” as most institutions are focused on rebuilding capital. In response to retrenchment in secondary markets, some banks in the District have stepped up promotional efforts to gather retail deposits.

### **Real Estate and Construction**

Residential real estate activity in the first quarter was well below the pace of the same period last year. A contact indicated that housing demand has been “weak, with jumbo and subprime mortgages gone.” Residential real estate agents said that inventories have increased, as have average days on the market. Prices for both new and existing homes remained under downward pressure. Real estate agents said that some sellers of existing homes have pulled them off the market rather than accept large reductions from asking prices, and a builder indicated that his “asking prices couldn’t get low enough” to clear out inventory. Contacts saw a few signs of rising interest in home buying in March, with some increased traffic both in person and on websites, but they have yet to see any increase in sales. In general, residential real estate contacts do not expect market conditions to improve this year.

Commercial real estate firms indicated that many proposed projects have been put on hold in response to reductions in available financing and pullbacks by prospective tenants. Rents have remained stable, but building prices have come under some downward pressure as investors’ interest in commercial real estate has ebbed. Contacts anticipate slower sales, construction, and leasing activity this year than last year, but they expect rental rates to remain fairly stable.

## **Services**

Service-sector firms gave mixed reports on business conditions in March. Business services firms, other than those associated with real estate and construction, generally reported modest growth. Firms serving the real estate and construction industry, such as engineering and design firms, reported slowing business. Transportation companies also indicated that business has slowed recently. Employment agencies and temporary help firms reported that demand for workers grew steadily in the first quarter, but they expect a slowdown in hiring through midyear. Most of the service-sector firms contacted for this report expect current trends in business to continue through midyear, with slow growth for firms currently making gains but further declines for those firms whose business has been falling.

## **Prices and Wages**

Reports of increases in input costs and output prices from Third District business contacts were about as common in March as they were in February. Firms in the region noted increases in the prices of food products, chemicals, industrial materials, metals, and electrical equipment. They also reported rising costs for energy, and some noted that further increases are expected. Most of the firms reporting on employment costs in March indicated that wage increases remained moderate, although some noted that wage offers for some hard to fill positions have been raised by substantial amounts. However, an increasing number of firms appear to be implementing hiring freezes in response to current or expected slowing in business activity.

**FOURTH DISTRICT – CLEVELAND**

Economic activity in the Fourth District held steady since mid-February. In general, factory output was unchanged, though shipments by steel producers and service centers were on the rise. Production at auto assembly plants increased slightly. The housing industry remains weak with little expectation of improvement in the near future. Commercial building contractors reported steady to increasing business and a rise in the number of inquiries. Sales by District retailers were flat to declining. Bankers cited a slight improvement in consumer lending and a small drop in business loans. While there has been some tightening in credit standards, credit is widely available to qualified applicants. Energy production was stable to increasing. And the demand for freight transport services was soft.

Employment levels and wages were largely unchanged Districtwide. However, energy companies reported strong employment growth and some wage pressure. Staffing firms cited a slight increase in the number of job openings, persons seeking jobs, and placements. Demand was greatest in health care and professional business services. A significant rise in commodity-based input prices was reported by manufacturers, commercial contractors, and restaurateurs.

**Manufacturing.** For the most part, output by District factories has not changed during the past six weeks. Reports of decreased production were attributed to declines in residential construction or seasonal adjustments. On a year-over-year basis, reports were evenly split between production slowdowns and increases, with only one company experiencing a significant decline. Outlook by manufacturers is best described as cautious, with a few contacts noting a softening in demand. Steel shipments were on the rise for both producers and steel service centers. Expectations call for demand to remain at current levels or to increase during the second quarter. The strongest end markets for steel include energy and capital goods. District auto production increased slightly in February. Output by domestic nameplates increased while their foreign counterparts showed a small decline. In terms of year-over-year comparisons, auto production was up slightly.

Several contacts noted an increase in exports. Capital spending remains on plan, with most producers saying that 2008 expenditures will be at or above 2007 levels. Three contacts told us they plan to increase spending substantially on capacity expansion projects. Access to

credit has not been an issue for manufacturers. However, a few mentioned that their accounts receivable have been impacted by customers who were negatively affected by tightening credit standards. Almost all manufacturers reported strong price increases for raw materials, especially metals and thermoplastics. However, less than a third had raised their prices in response, and only a few contacts plan to raise prices in the near future. On balance, there was little change in employment levels, and limited hiring is expected in the near future. Wage pressures are not an issue though many respondents expressed concern about rising health-care costs.

**Real Estate.** Residential contractors reported new home sales were flat to up slightly during the past six weeks. Almost all contacts affirmed that traffic has picked up, but they are unable to translate it into sales. Looking forward, home builders believe 2008 sales will be similar to those in 2007, with a slight pickup anticipated toward the end of the year. Since our last report, new home prices have been relatively stable though some discounting is still taking place. Material prices have held steady, while overall building costs are down slightly due to competitive pricing by subcontractors.

Commercial contractors reported that business has been steady to increasing slightly since our last report and on a year-over-year basis. Inquiries have picked up and backlogs are at acceptable levels. Credit was available to all our contacts. Expectations call for construction activity to remain at current levels or to strengthen. Most contractors have experienced some increase in the cost of materials, with the price of steel rising sharply. Workforce levels remain largely unchanged. Pricing for subcontractor services is competitive.

**Consumer Spending.** District retailers reported flat to declining sales in February when compared to the previous month. Expectations are for some weakness in sales to continue throughout the second quarter. Auto dealers reported sales of new and used vehicles were unchanged to declining. However, most dealers anticipate an upturn in sales during the coming weeks. Except for agricultural products, vendor prices were relatively stable. Restaurateurs reported passing through their increased costs to customers. Employment levels were adjusted to meet seasonal demands or for staffing new stores. Although capital spending remains on plan, half of our contacts told us that they intend to reduce future expenditures.



**Banking.** Most bankers reported demand for business loans was steady or declining since our last report. Those showing increased loan volume attribute it to greater utilization of existing lines. Overall loan demand by consumers was steady to increasing slightly; however, bankers noted that requests for home equity loans were on the decline. The residential mortgage market remains sluggish with most activity limited to refinancing. A majority of bankers told us that they are tightening credit standards to screen out riskier borrowers, but that credit is available to qualified businesses and consumers. A small increase in delinquencies was also reported. Almost all respondents experienced growth in core deposits, while a majority saw an easing in margin pressure. On balance, there has been a small decline in employment levels across community and national banks. Wage pressure is not an issue though several contacts expressed concern about rising health care costs.

**Energy.** Oil, gas, and coal production has been steady to increasing slightly over the past six weeks. Looking forward, a majority of our contacts told us they expect to see a rise in the demand for energy. Reports indicate that spot and contract prices have increased across the board. In general, equipment and material costs were stable. Capital expenditures remained on plan, with most respondents anticipating a pickup during the next few months. Nearly all producers increased their workforce size. However, many of them told us that it is becoming increasingly difficult to attract qualified workers, which is contributing to upward pressure on wages.

**Transportation.** Business was soft during the past six weeks with freight volumes running below available capacity. In general, transportation executives expect current market conditions will continue into the near future. Several contacts noted difficulty in balancing downward pressure on freight prices against rising fuel costs. However, there has been some easing of customer resistance to increases in fuel surcharges. A few respondents reported significant declines in capital expenditures with future spending dependent on the level of business activity. For the most part, hiring was limited to driver turnover. Some upward pressure on wages was linked to companies trying to retain drivers.

## FIFTH DISTRICT–RICHMOND

**Overview.** Economic activity in the Fifth District continued to advance at a sluggish pace in late February and March, though there were a few signs of improvement. Retailers said that consumers continued to rein in their spending. Home sales activity remained weak in most markets and assessments of commercial real estate conditions in the District were generally downbeat. In addition, commercial lending activity continued to slump, though residential lenders noted that demand for home mortgages edged higher. Other sectors fared better in recent weeks, however. Activity at Fifth District factories and ports picked up since our last report, spurred by strong overseas demand for U.S. goods. Additionally, revenue growth at services firms was steady and reports on tourist activity were mostly upbeat. There was also brighter news from District farms as overall conditions improved and spring planting activity proceeded on schedule. On the employment front, hiring activity was mixed. Service providers added workers, while manufacturers and retailers continued to trim payrolls. Readings on prices also varied as retail and services price growth moderated somewhat, while raw material costs were up sharply.

**Retail.** District merchants reported that retail sales activity dwindled further in recent weeks. The manager of a sporting goods store in West Virginia said sales were “significantly slower” over the past six weeks, while a contact at a department store in the Washington, D.C., area noted that shoppers were “only spending when they had to.” Sales of big-ticket items such as furniture and automobiles were especially weak. A contact in Charleston, W.Va., told us his automobile dealership had the worst March in company history. In response, some retailers adjusted inventory and staffing levels. An executive at a large building supply chain said spring inventories were lower than normal and that summer hiring plans had been curtailed. Measures of retail price growth eased a bit, though we heard more widespread concerns about rising transportation costs.

**Services.** District service providers reported moderate revenue growth since our last report. Contacts at engineering and telecommunications firms noted a pickup in revenues, while contacts at architectural and web design firms reported steady demand. In contrast, activity at financial services firms was sluggish as clients remained uncertain about general economic prospects. Hiring at services firms edged up in recent weeks, while price growth cooled.

**Manufacturing.** District manufacturers said that production activity firmed a bit in March. Producers noted healthy increases in shipments and new orders which they attributed to strong overseas demand. An electrical equipment manufacturer in Maryland told us that his European

business had gained momentum and that shipments to Asia remained strong. On the other hand, contacts said tentative U.S. consumers continued to limit domestic demand. “Unabated” price growth remained a challenge for producers. Contacts reported that raw material prices grew more quickly in recent weeks behind sharp increases in energy costs. District manufacturers also indicated that their margins were being compressed further due to a growing inability to pass along price increases.

**Ports.** Export activity at District ports continued to “boom” in March as attractively-priced U.S. goods drove growth in exports. Contacts said that increased grain exports also bolstered activity in recent weeks. Nonetheless, port officials noted that weakening domestic demand contributed to softness in import volumes, especially automobiles and household goods. Additionally, contacts voiced some concerns over potential supply chain disruptions due to rising fuel costs.

**Finance.** Feedback from residential lenders was more encouraging in recent weeks. Contacts in Richmond, Va., and Charleston, S.C., noted a pickup in overall lending activity as an increase in mortgage originations more than offset a slowdown in refinancing activity. Reports on interest rates suggested only small changes. Contacts in Greenville and Charleston, S.C., said mortgage rates edged lower in March, but lenders in Richmond, Va., and Raleigh, N.C., told us rates were “roughly the same.” In addition, contacts noted that credit standards continued to tighten—lenders said they were enforcing stricter income ratios and requiring larger down payments over the last six weeks. On the commercial side, contacts described lending activity as “lukewarm.” Demand for commercial loans was relatively steady since our last report, though activity was “still below average” according to a lender operating in Virginia and the Carolinas. Contacts also noted downward pressure on interest rates in recent weeks as competition for quality applicants intensified. Feedback on credit standards varied. A Charleston, W.Va., banker said his institution was requiring more equity for transactions, while a Baltimore, Md., contact reported no major changes in credit standards over the previous month.

**Real Estate.** Fifth District housing markets remained generally sluggish in recent weeks, though there were some pockets of improvement. A Realtor in Richmond, Va., told us sales were “basically flat” in March, while an agent in Charlotte, N.C., said sales were down thirty-five percent from the previous month. Similarly, a contact in Washington, D.C., noted very few “signs of life” in his market, but speculated that the “worst was over” in terms of the housing slump. On the flip side, a Realtor in Greenville, S.C., reported “excellent” sales over the last six weeks and an agent in Fredericksburg, Va., noted a jump in prospective buyers. A contact in Richmond, Va., said that a majority of his recent sales had been on homes under \$350,000, though a Realtor in Greensboro, N.C.,

told us that some properties in the million dollar range were “starting to move.” Home prices across the District continued to soften a bit since our last report and construction activity was limited.

Assessments of commercial real estate conditions were a bit weaker in recent weeks as additional softness in the northern half of the District overshadowed somewhat positive reports from the Carolinas. The pace of leasing activity was steady in Raleigh and Charlotte, N.C., while an agent in Richmond Va., remarked that clients were “starting to pull in their horns.” Similarly, a Washington, D.C., contact told us that his area “hasn’t seen the normal spring pickup.” Reports on vacancy rates were also mixed. Realtors in Baltimore, Md., and Charleston, W.Va., reported little to no change, the Columbia, S.C., and Charlotte, N.C., markets saw rates edge lower, while contacts in northern Virginia and Richmond, Va., noted an uptick in vacancies. Rental rates were flat across the District, though agents in Richmond, Va., and Washington, D.C., said landlords were offering incentives to retain clients. Reports of new construction activity remained “sparse” as lenders continued to heavily scrutinize proposals. Agents in Columbia, S.C., and Richmond, Va., noted an increase in the number of deals falling through, while a Charlotte, N.C., contact said, “finding a developer who can close is the trick right now.”

**Tourism.** Reports on tourist activity varied in late February and March. Managers at mountain resorts in Virginia and West Virginia said their ski seasons had improved notably compared to last year, and that their resorts’ reservations were “booked to capacity” for the Easter weekend. Contacts along the coast, however, told us that it was “not their best Easter,” which they attributed to the holiday occurring earlier than normal.

**Temporary Employment.** Fifth District temporary employment agents continued to report somewhat weaker demand for workers over the past six weeks. Contacts said that requests for warehouse and distribution center workers had fallen off sharply, though demand for temporary employees with computer and administrative skills remained strong. Looking forward, contacts expected demand for workers to pull back further in the months ahead as clients revised hiring plans amid the ongoing economic uncertainty.

**Agriculture.** Reports from District farms were more upbeat in recent weeks. Although drought conditions persisted in a number of areas, contacts told us that soil moisture was adequate for field preparation and planting in most parts of the District. An agricultural analyst in North Carolina said that farmers had started planting potatoes and cabbage and were preparing their fields for additional spring plantings. In addition, contacts in Maryland and Virginia reported that small grain crops were in good to excellent condition.

**SIXTH DISTRICT – ATLANTA**

**Summary.** Sixth District business contacts indicated that overall economic activity weakened in March and early April. Several retailer and auto dealer contacts noted that sales were moderately lower than a year ago. However, most tourism industry contacts reported that spending remained positive on balance. Residential real estate activity continued to be weak, with many areas noting high inventories and price declines. Commercial development was also below year-ago levels in most areas. Manufacturing varied by industry, with energy, defense, and aerospace production remaining steady, while automobile and construction-related production declined. Banking industry contacts continued to report tight lending standards throughout the region. On balance, labor markets weakened, with contacts in several industries reporting a pull-back in hiring and an increase in layoffs. Contacts continued to note concern over rising food, energy and raw materials prices. Drought conditions eased somewhat in March and early April.

**Consumer Spending and Tourism.** Most District merchants continued to report weak sales during March and early April compared with a year ago. Inventories were described as mixed, with nearly half of our contacts reporting that levels were even with a year ago and many others citing rising inventories. Retailers' outlook was less positive than in the previous report, with more merchants expecting slower sales over the next several months.

District vehicle sales continued to weaken. Dealers reported disappointing sale volumes in March, despite added incentives for slow-selling trucks and SUVs. Sluggish consumer demand for new vehicles has resulted in inventory accumulation for both domestic and foreign brands.

Reports on hospitality and tourism indicated continuing strength through March. New Orleans contacts noted continuing improvement in the city's tourism and convention activity. Gaming revenues from the Mississippi Gulf Coast resorts also strengthened. Reports from Florida were also largely positive, with many destinations there benefiting from an increase in international visitors, especially from Europe.

**Real Estate.** Homebuilders and Realtors reported that new and existing home sales remained well below year-ago levels in March. Several homebuilders noted that

traffic had picked up somewhat, although sales had not. Most Realtors reported that buying interest remained very weak. Home prices continued to trend lower in most parts of the District, while inventories remained at high levels. Overall, District housing markets are expected to remain subdued in the near term. Most contacts suggested that the spring selling season will be pivotal to the year's performance.

Reports from District contractors indicated that commercial development had weakened. Nearly half of our contacts reported that commercial construction declined significantly during the first quarter of 2008 compared with a year ago. Meanwhile, order backlogs continued to shrink throughout much of the District. Contacts noted a sharp increase in material prices, while labor costs growth held fairly steady. Expectations for commercial development for the remainder of the year have weakened.

**Manufacturing and Transportation.** Reports from manufacturing contacts continued to be mixed. Energy, defense, and aerospace industries reported steady growth. However, industries related to residential housing continued to report production cutbacks and declines in new orders. Automobile production also declined. Reports continued to indicate that the lower value of the dollar had resulted in expanded export activity. Demand for domestic freight services continued to be weak, and high diesel prices were reportedly lowering the profitability of many trucking companies that have not been able to pass on higher fuel costs to their customers. Regional rail shipments through mid-March indicated weakness in autos and housing-related goods, but gains in deliveries of agricultural goods, chemicals, and metals.

**Banking and Finance.** Contacts in the banking industry continued to report tight credit conditions across the District. Mortgage loan applications continued to be closely scrutinized, and consumer and business loans are also facing tighter standards. Small business borrowers are reportedly being adversely affected as a result. New business and consumer loan demand softened, although utilization rates for existing lines of credit increased.

**Employment and Prices.** District employment activity was generally subdued in March. Several businesses indicated they were trimming their hiring plans, and several reported leaving vacancies unfilled. Some were also cutting back on hours and cutting part-time employment. According to contacts, construction-related businesses continued

to lay-off staff, or substantially trimmed their seasonal hiring plans. Stronger hiring reports came from the coastal regions where post-Katrina rebuilding efforts were still getting underway. Shortages of skilled workers continued to be noted by some contacts, particularly in the healthcare industry. Several contacts also reported that they were hesitant to part with skilled employees despite weaker economic activity because they wanted to have a quality workforce in place when conditions improved.

Increases in food and energy-related prices were noted across the District at both the wholesale and retail levels. Raw materials prices, especially metals, were also accelerating according to several contacts. The ability of businesses to pass on these higher material costs to their customers varied.

**Agriculture and Natural Resources.** District farm areas received more rain during March and early April, providing temporary relief to drought-stricken areas. Current market conditions for poultry and cotton are favorable as higher prices have boosted the near-term outlook. Higher citrus production and inventories in Florida and Brazil partly contributed to softening prices for those goods. Refinery utilization was weaker because of seasonal factors tied to routine maintenance.

**SEVENTH DISTRICT—CHICAGO**

**Summary.** Economic activity in the Seventh District expanded in March, but at an even more sluggish pace than in the previous reporting period. Consumer and business spending softened. Labor market conditions weakened in general, although they continued to vary by industry and location. Residential and nonresidential construction slowed, as did manufacturing outside of export-oriented businesses and the steel industry. Consumer lending declined, but business lending remained strong. There were more reports of difficulty in obtaining credit, and these were not limited to the real estate market. Cost pressures from rising material and energy prices increased from the previous period, while wage pressures remained low. Corn prices set new records, while soybean prices declined from recent highs.

**Consumer spending.** Consumer spending in the District was sluggish in March. Higher energy prices and poor weather contributed to weaker retail sales overall, despite reports of continued strength in the demand for luxury items. A Michigan contact noted that tourism and business travel were slow in March, with a negative effect on retail activity as a result. However, an Illinois contact reported that hotel business remained strong, in part due to foreign demand from business travelers and the favorable exchange rate. Sales of automobiles varied across the District, but, overall, remained weak in March. Tighter auto loan standards were reported to be having an effect on vehicle demand. Dealers reported only a limited impact on inventory levels from the ongoing American Axle strike. Activity in service departments and sales of auto parts were sustaining business for many dealers.

**Business spending.** The pace of business spending was down slightly from the previous reporting period. A heavy machinery manufacturer reported further investment in research and development and in capacity. In contrast, contacts in the automotive and financial services industries reported reducing capital expenditures. Overall, employment conditions in the District weakened, with Michigan continuing to lag behind the other District states. Information technology, sales, and health care remained bright spots for hiring, while the manufacturing, construction, automotive and financial services industries continued to report weak labor demand. The demand for skilled and professional workers remained strong, and shortages of such workers continued to be reported. Staffing firms' billable hours were stable and their job advertising activity was strong. However, these firms have recently experienced some slowing in new placements, and



one contact noted that small to mid-size clients were delaying annual commitments in light of concerns over near-term economic prospects.

**Construction/real estate.** The pace of construction in the District slowed from the previous reporting period. Existing projects were moving forward, but new projects were being delayed or cancelled. Residential development and construction continued to fall, although the rate of decline slowed in some District states. Excess inventory continued to be reported in some areas of the District in both homes and condominiums. Housing demand remained weak, apart from some gains in high-end and custom-built homes. However, inquiries were reported to have increased in March, particularly among first-time home buyers. Several contacts reported that lower prices for existing single-family homes were pressuring margins on new and spec homes, as builders found they needed to reduce prices in order to move inventory. Residential rents were stable. Nonresidential development and construction grew slowly in March, reflecting infrastructure projects such as roads, hospitals, and churches as well as restaurants, gas stations, and hotels. Office and retail construction growth remained steady for most of the District; however, contacts in some District states reported excess capacity in these sectors and indicated that vacancy rates were rising.

**Manufacturing.** Manufacturing activity continued to grow in the District, but at a weaker pace in March. Demand for most forms of heavy equipment declined, but demand for aircraft and energy extraction and mining equipment continued to be robust. Manufacturers in several industries again reported strength in exports. Domestic steel production continued its strong growth, aided by advantageous terms of trade. Soft demand continued to affect manufacturers with close ties to residential housing. For example, one contact in the building materials industry reported plans to implement work force reductions and was delaying plans for adding capacity. Automakers reported that sales in the early part of the year were slightly above expectations, but expressed concern that higher gasoline prices would reduce demand going forward. Several contacts noted that the American Axle strike was beginning to adversely impact their business. A contact reported that layoffs in the automotive industry were slightly lower than expected in March; however, an auto supplier reported plans to move from two shifts to one at an Illinois plant in the near future.

**Banking/finance.** Credit market conditions in the District were variable in March, but were little changed overall from the previous reporting period. Consumer loan demand continued to decline. Lenders tightened standards on loans to households with continued concerns about loan quality. Home equity loans were steady, while home equity lines of credit declined. Mortgage refinancing activity increased substantially. However, mortgage originations remained low and

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standards continued to tighten, with contacts reporting that lending was concentrated among low-risk borrowers and conforming mortgage products. Business loan demand remained strong, particularly for commercial and industrial loans. However, standards continued to tighten, and concerns about the commercial real estate sector limited the availability of credit to this market. A contact in this industry reported continued unwillingness on the part of traditional lenders to finance new projects. In addition, contacts in retailing reported financing difficulties, because banks were tightening standards on existing lines of credit.

**Prices/costs.** Costs rose for a variety of inputs from the previous reporting period, including energy-related products and raw materials such as metals and cement. Several contacts reported that rising diesel fuel prices were leading some small trucking firms to go out of business and others to reduce activity as fuel surcharges were insufficient to cover costs. A contact in the construction industry reported that wallboard prices had declined to the degree that they no longer covered production costs. Many contacts cited the rising price of steel as a significant factor in their costs. Wage pressures were limited outside of the skilled labor positions that continue to experience shortages. A staffing firm reported some recent softening in pay rates for temporary services employment. In contrast, a construction contact cited union wage contracts and a manufacturing contact indicated health care as factors boosting their respective labor costs.

**Agriculture.** During March and early April, corn prices climbed to new highs (in nominal terms) while soybean prices retreated from recent highs. Contacts reported that these price developments may result in a smaller decline in corn planting and a more modest increase in soybean acres this spring than had been anticipated. For both corn and soybeans, substantially higher input costs, including premiums for crop insurance, have increased breakeven prices for the current growing season. Furthermore, farmers found it more difficult to engage in forward contracts, as grain elevators faced margin calls due to higher futures prices. Winter snows and recent cool weather and precipitation delayed field preparations for planting in much of the District, though applications of fertilizer this past fall should partially compensate for the delay. Lower milk, hog, and cattle prices combined with higher feed costs reduced margins for dairy and livestock producers. Hog operations seemed to be hit hardest. There were some reports that depleted cash reserves were creating a demand for loans, but that lenders were not willing to meet this demand.

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### **Eighth District - St. Louis**

#### **Summary**

Economic activity in the Eighth District has slowed slightly since our previous report. Although manufacturing activity has remained roughly flat, contacts' reports indicate continued softening in the services sector. Retail sales in February and early March declined compared with the same months in 2007. Auto sales remained largely unchanged over the same period. Home sales and residential construction continued to weaken throughout the District, but commercial real estate conditions remained favorable. Overall lending activity at a sample of small and mid-sized banks increased slightly during the first quarter of 2008.

#### **Manufacturing and Other Business Activity**

Manufacturing activity has remained steady since our previous report. There was roughly the same number of announcements of plans to open plants and expand operations in the near future as announcements of plans to close plants and reduce operations. Firms in chemical manufacturing and motor vehicle parts manufacturing reported plans to open new facilities in the District and hire workers. A contact in apparel manufacturing reported plans to hire additional workers. In contrast, contacts in furniture manufacturing reported plans to lay off workers. A firm in motor vehicle manufacturing idled production. Firms in wood product manufacturing and transportation equipment manufacturing announced that they will close plants in the District.

The District's services sector has continued to soften since our previous report. On the positive side, contacts in business support services and transportation services

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announced plans to expand facilities and hire additional workers. However, a larger number of firms reported plans to close facilities and lay off workers. Contacts in financial services reported plans to close facilities and lay off a large number of workers; job losses were also reported in educational services and publishing. In addition, general and big box retailers reported sales decreases in February and early March of 2008 compared with the same period in 2007. Auto sales in February and early March were roughly the same compared with a year ago, although smaller dealers experienced some decreases.

### **Real Estate and Construction**

Home sales continued to decline throughout the Eighth District. Compared with the same period in 2007, February 2008 year-to-date home sales were down 17 percent in Memphis, 13 percent in St. Louis, 16 percent in Little Rock, and 14 percent in Louisville. Residential construction also continued to decline throughout the District. February 2008 year-to-date single-family housing permits fell in nearly all District metro areas compared with the same period in 2007. Permits declined 56 percent in Memphis, 32 percent in St. Louis, 20 percent in Little Rock, and 15 percent in Louisville.

Commercial real estate construction is active throughout the District. However, some contacts noted that commercial leasing may be slowing. A contact in northeast Arkansas reported that light commercial construction in general is holding steady and is quite active in some locations. A contact in south central Kentucky reported that the commercial market in the Bowling Green area continues to grow. Commercial contracting contacts in Memphis reported that their business outlook is positive for the next twelve months. A contact reported that commercial real estate leasing in central

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Arkansas has become sluggish. A contact in Louisville reported that commercial and industrial construction continues at a strong pace, although there have been delays on several large projects.

#### **Banking and Finance**

Total loans outstanding at a sample of small and mid-sized District banks increased 0.5 percent during the first quarter of 2008. Real estate lending, which makes up 74.3 percent of total loans, increased 0.4 percent. Commercial and industrial loans, accounting for 16.7 percent of total loans, increased 0.4 percent. Loans to individuals, accounting for 4.9 percent of total loans, increased 1.5 percent. All other loans, approximately 4.1 percent of total loans, increased 2.1 percent. Over this period, total deposits at these banks fell 2.9 percent.

#### **Agriculture and Natural Resources**

Total winter wheat acreage in 2008 increased by 23 percent from 2007, and most of each District state's crop was reported to be in fair or better condition in March. However, flooding in many areas of the District toward the end of March caused some winter wheat loss, and damage continues to be assessed in some areas. Farmers in the District reported that they expect to plant 10 percent fewer acres of corn in 2008 than in 2007. Similarly, they expect to plant 22 percent fewer acres of sorghum, 30 percent fewer acres of cotton, and 3 percent fewer acres of tobacco than last year. In contrast, they anticipate planting 15 percent more acres of soybeans than last year and 1 percent more acres of rice.

## **NINTH DISTRICT--MINNEAPOLIS**

Overall activity in the Ninth District economy appears to have slowed slightly since the last report. Decreased activity was noted in residential construction and real estate, and consumer spending was soft. Mixed activity was noted in manufacturing and commercial real estate, while commercial construction and energy were steady. Growth was noted in services, tourism, mining and agriculture. Overall, employment markets softened somewhat since the last report, while wage increases were moderate. Significant price increases were noted for food, fuel and steel.

### **Consumer Spending and Tourism**

Overall consumer spending was soft. A major Minneapolis-based retailer reported same-store sales in February were up 0.5 percent (essentially unchanged) compared with a year earlier. Recent traffic and sales at a Minneapolis area mall were consistent with last year. Some retailers reported plans to close stores. A chain of dollar stores recently announced plans to close locations in Minnesota and South Dakota; profit margins were squeezed due to increases in the cost of food and fuel. A buffet restaurant chain based in Minnesota announced plans to close 51 restaurants, while a leather goods retailer also based in Minnesota announced plans to close more than half of its mall stores. In contrast, a North Dakota mall manager noted that first quarter sales were strong. February traffic at a Montana mall was up 7 percent, and sales were on par with a year ago.

A representative of an auto dealers association noted that sales levels were favorable in many parts of South Dakota. A Minnesota auto dealer reported solid sales of imports during March compared with last year and said domestic sales were holding their own; however, sales of SUVs and trucks were down. A domestic auto dealer in Minnesota reported that recent sales were slow.

Tourism activity increased. Convention business in the Minneapolis-St. Paul area was up from a year ago, while recent hotel occupancy was flat; officials noted an increase in Canadian and other foreign visitors due in part to favorable exchange rates. Buoyed by an early Easter holiday, a Minnesota ski resort reported strong ski activity and lodging levels during March compared with a year ago.

### **Services**

Reports from the professional business services sector were generally positive. Several accountants reported a slight uptick in business compared with last year. Contacts from

the information technology area reported a weak February but a pickup in March. Several marketing firms reported flat activity in March. Firms supporting manufacturers said activity was level. However, firms servicing the financial sector reported a slowdown.

### **Construction and Real Estate**

Commercial construction continued at a steady pace. A commercial builder in Minnesota and Wisconsin said retail and office construction was steady, but light industrial and infrastructure construction was slow. An executive of a commercial builders association in South Dakota said construction activity there was still strong. A St. Paul suburb recently approved plans for a 575,000-square-foot corporate campus. Bidding began on a \$28 million National Guard training center in Devils Lake, N.D. Meanwhile, residential construction was slow. March new home permits were down more than 40 percent in value in Sioux Falls, S.D., from the previous year. February year-to-date residential permits were down in Fargo, N.D., and Rochester, Minn.

Commercial real estate was mixed. A commercial real estate firm in Minneapolis-St. Paul reported higher office vacancy and lower absorption in the first quarter of 2008; the same report showed vacancy was higher for industrial properties and flat for retail, while absorption for both fell. A number of office properties in downtown Minneapolis have recently been placed on the market, including one package totaling more than 2 million square feet. A commercial real estate developer in Fargo characterized the market there as growing steadily. Residential real estate was weak. Pending sales in the Minneapolis-St. Paul area were down 15 percent at the end of March from year-earlier levels; prices were down significantly. A Realtor in Sioux Falls said sales there were down slightly in the early part of the year, but he expects a healthy selling season.

### **Manufacturing**

Overall manufacturing activity was mixed since the last report. A March survey of purchasing managers by Creighton University (Omaha, Neb.) indicated decreased activity in Minnesota and increased manufacturing activity in the Dakotas. A representative of a wood products company with plants in western Wisconsin and the Upper Peninsula of Michigan reported very poor demand. A wind turbine maker plans to build a facility in Montana.

**Energy and Mining**

Activity in the energy sector remained at solid levels since the last report, while mining increased. Robust oil and gas exploration and production continued in the District. Wind power continued to expand. However, biofuel output decreased as a plant shut down because of higher soybean costs. Expansion of the mining industry is under way as exploration and permitting activity continued across the District.

**Agriculture**

Agricultural conditions were favorable across most of the District. Primarily due to increased relative prices and input costs, farmers plan to plant more soybeans and wheat and less corn this year. Ample moisture conditions were evident in the eastern part of the District, while dry conditions prevailed in the west. Meanwhile, cattle, dairy and poultry producers were concerned about rising feed costs.

**Employment, Wages and Prices**

Employment markets softened somewhat since the last report. In Minnesota a thermoplastic products facility will close, affecting 350 jobs, and a newspaper recently announced plans to cut more than 10 percent of its positions. A telecommunications company plans to reduce payroll in the District due to decreases in demand for local phone service. The number of active unemployment insurance claims in Minnesota was up 8 percent in mid-March compared with a year ago. In contrast, a software services company plans to move to South Dakota this spring, which could eventually create 200 jobs. A new research facility recently began staffing up to 100 positions in Montana.

Overall wage increases were moderate. According to respondents to a recent St. Cloud (Minn.) Area Business Outlook Survey, 37 percent expect employee compensation to increase over the next six months, down from 46 percent in last year's survey. A county board in Minnesota recently agreed to raise most workers' pay 3 percent annually over the next three years.

Significant price increases were noted for food, fuel and steel. A bakery in the Minneapolis-St. Paul area recently raised prices 10 percent on many products in part due to increases in the costs of flour and eggs. Gasoline prices in Minnesota were 60 cents per gallon higher in late March than a year earlier. Recent price increases were reported for steel and copper products.



**TENTH DISTRICT - KANSAS CITY**

Economic growth in the Tenth District continued to slow, with gains largely limited to energy- and agriculture-focused regions. Consumer spending was flat on net since February and manufacturing activity slowed further. Residential real estate activity remained weak, with some exceptions in energy-producing regions. Commercial real estate activity also slowed, with reports of recent municipal bond problems potentially reducing the scope of planned projects. High commodity prices continued to bolster the energy and agricultural sectors. Labor markets slowed, but continued to show growth. Reports of wage pressures continued to be lower than last year, but price pressures were reported at many stages of production.

**Consumer Spending.** Consumer spending remained flat overall since February. Retailers' reports were balanced between growth and contraction on the month, but generally pointed to lower sales than a year ago. Mall traffic was reported to be down and slower sales were partly attributed to higher gasoline prices. Retailers expected business activity to recover somewhat in the coming months but felt inventory levels would rise further. While still down from last year, auto dealers reported a rebound in March sales, partly driven by incentives. Travel and tourism activity remained solid with higher average room rates reported in many areas. Restaurants reported higher sales compared to last month though the average check amount was unchanged.

**Manufacturing.** Manufacturing activity continued to slow in March, but modest expansion was expected in coming months. District plants reported lower production levels and a substantial decrease in new orders. A capital goods producer reported that firms appeared to be "hunkering down" to avoid exposure in a volatile marketplace. Employment expectations dropped further as well. On a positive note, exporters' expectations for orders rose in response to the weaker dollar. However, one exporter reported shipping backlogs due to a lack of ocean-going shipping containers and tight railroad transportation to ports.

**Real Estate and Construction.** Residential real estate activity was flat from the last report

and commercial real estate activity was stable in March. Inventories remained high and sales were below last year's level, but were expected to improve seasonally. A major Colorado Realtor reported that activity in the "move-up" market remained weak, while overall activity was flat. Home prices continued to edge down in most areas, with the exception of some agricultural and energy intensive areas. Commercial real estate sales dipped compared to the previous period, but construction was up from both month- and year-ago levels. Commercial vacancy rates in the District remained stable; however, commercial realtors anticipated rising absorption rates. Rents continue to move higher when leases terminate. Developers noted economic uncertainty and stricter underwriting standards have lengthened the approval process for new projects. The recent difficulties in municipal bond markets were also reportedly raising the costs for public projects and causing some projects to be scaled back.

**Banking.** Bankers reported tighter credit standards and slightly weaker loan demand than in the previous survey but were somewhat less pessimistic about future loan quality. Demand declined modestly for consumer installment loans but remained essentially unchanged in other categories. A little less than half of respondents reported a tightening of credit standards for commercial real estate loans, about the same fraction as in the previous survey. There were also some reports of tightened standards for commercial and industrial loans, consumer installment loans, and residential real estate loans. About the same fraction of banks as in the previous survey reported that overall loan quality was down from a year ago. However, a somewhat smaller fraction of respondents expected loan quality to decline over the next six months. For the first time in several surveys, bank deposits improved moderately, led by gains in interest-bearing checking accounts and money market deposit accounts.

**Energy.** District energy activity showed continued growth in March. Respondents reported increased drilling activity from the last survey. Oklahoma and Colorado showed the strongest growth in the number of active drilling rigs during the period. Firms again reported that drilling was being constrained by the lack of qualified labor, but the companies did not

expect to raise wages in order to attract workers. Credit conditions remained favorable in the industry, and contacts continued to expect further growth in activity.

**Agriculture.** Agricultural conditions remained favorable since the last survey period. The winter wheat crop was reported in good condition, except in extremely dry areas of Kansas and Oklahoma. District contacts reported a shift in crop mix that reduces corn acreage and increases soybean plantings. The switch was attributed to relatively high soybean prices and higher corn production costs, as well as typical rotations for soil management and crop productivity. Livestock producers continued to lose money due to higher feed costs. A number of mid-sized feedlots were reported to be at risk for failure. Funds availability for the agricultural sector remained healthy and loan demand and capital spending was robust. Farmland values continued to rise at a brisk pace.

**Wages and Prices.** Price pressures intensified in March but wage pressures were steady. District factories reported paying higher prices for raw materials, noting increases in metal prices and agricultural commodity prices in particular. Manufacturers reported more finished goods price increases than in previous surveys and expected additional increases in coming months. However, some factories experienced difficulties passing higher costs on to customers, given weakened demand in some industries. Builders reported that high fuel costs were raising the cost of wood products and roofing materials. Restaurants reported higher food costs and planned to raise menu prices in the future. Yet retail price reports showed no substantial change. The number of firms reporting wage pressures and difficulty hiring workers was little changed over the month, but still below last year. District hiring announcements continued to outpace layoff announcements and on net employment in the region likely grew.

## ELEVENTH DISTRICT—DALLAS

The Eleventh District economic expansion softened further in March and early April. Numerous contacts who do business nationally say growth in Texas is outperforming the rest of the country. Factory production declined, and there were a few reports of temporary and permanent plant closings. Service sector growth was mixed and generally weaker than reported in the last Beige Book. Retail sales were below expectations. Construction and real estate markets continued to soften. Financial-service firms are cautious about lending, but competition remained stiff for deposits and quality loans. Energy activity was still strong. Agricultural conditions improved.

Business leaders expressed concern that negative reports about the economy will affect future activity. A high level of uncertainty has led some firms to pare down investment and be cautious about staffing levels. Several manufacturing and service firms reported a deterioration in receivables.

**Prices.** A continuation of upward cost pressures prevails in the markets for many inputs, including fuel, packaging, shipping and raw materials, such as copper, aluminum, steel and liner board. Contacts said declines in the value of the dollar contributed to increases in the cost of imported goods and raw materials. Competitive pressures have forced most manufacturers to absorb some or all of the cost increases, but many service firms are able to raise fares, fees and prices.

Domestic demand for crude oil has been the weakest since 2003, but West Texas Intermediate Crude oil prices moved between \$100 and \$110 per barrel during the period. Gasoline prices are up about 25 cents over the past six weeks, and diesel prices are up 57 cents. Natural gas prices moved from \$8 to near \$10 per million Btu. High oil prices and some unplanned outages pushed ethylene and propylene prices up sharply. Downstream plastics producers also increased prices.

High inventories are pushing down selling prices for materials supplying residential construction, such as brick, stone and glass. Oversupply of semiconductor memory chips has put downward pressure on the prices of products and equipment that utilize these chips.

**Labor Market.** There were more reports of layoffs in manufacturing, but the overall labor market remained tight. There is still a shortage of skilled workers, particularly higher skilled positions, such as mid-level executives and experienced engineers. Some contacts say tighter enforcement of immigration laws has led to scattered farm labor shortages, notably for harvesting vegetables and fruit.

**Manufacturing.** Demand for materials to supply residential construction remained soft—significantly below a year ago—and weaker than expected. Inventory levels are high, and manufacturers are cutting back on production and staff levels. Sales of materials to supply commercial construction have softened some. Demand for paper was slower than normal. Food producers said sales have been better than expected. Transportation manufacturers supplying the defense industry reported continued strong demand, but other sales have slowed.

Excess inventory in the high-tech industry has led manufacturers to reduce production. Sales of equipment are down significantly over the past month and are expected to be weak through 2008. A large inventory of memory chips is pushing down prices. Contacts say there is a great deal of uncertainty, and they are unclear how much the slow down in orders is the result of inventory reductions or weakening demand.

Soft domestic demand and rising energy prices dampened petrochemical and plastic production. Refineries cut production in response to the highest gasoline inventories in 15 years. Gasoline demand is running 1.5 percent below levels of a year ago.

**Retail Sales.** Retail sales were weaker than expected, but national retailers said Texas sales are outperforming the rest of the country. Firms that offer credit noted an increase in delinquencies. Auto sales remained steady overall, with the strongest sales volumes for fuel-efficient cars. Rebates have softened prices somewhat, according to dealers, who say that financing is readily available to first-time buyers, even though some lenders have stopped making auto loans.

**Services.** Orders for temporary staffing services improved from the last report and were better than a year ago. Activity was strongest for positions in the service sector, particularly in IT and engineering, but activity to support manufacturing was sluggish. Temporary staffing firms say fees have been rising.

Legal firms reported an increase in bankruptcy and litigation work. Demand for legal services to support transactions fell some but remained strong to the oil and gas industry. Real estate-related activity has dried up. There was little change in demand for accounting services.

Shipping activity weakened, and firms are less optimistic about the outlook for the next few months. Import volumes continued to fall and are not being completely offset by exports. Airlines say domestic demand has been slightly muted by concerns about the economy, but advance bookings are holding up well. Carriers are cutting capacity as a precautionary measure. Fuel costs are putting upward pressure on fares.

**Construction and Real Estate.** Sales of new and existing homes continued to edge down and were below expectations. Contacts attributed lower demand to eroding consumer sentiment and the absence of subprime lending. Builders have cut back construction, resulting in a drop in the number of unsold finished homes. Apartment demand remained solid but slightly under expectations.

Commercial activity was mixed. Demand for industrial space is waning, and contacts said warehouse inventory has increased, particularly at intermodal facilities. Demand for office space was stronger than expected, but sales and investment dropped significantly. The decline of the commercial mortgage-backed securities market has led to difficulty completing transactions, according to industry leaders, who say there is no competition among lenders and little debt liquidity in the market.

**Financial Services.** Lending remained soft, and some respondents said uncertainty has led potential investment funds to wait on the sidelines. Financial service firms said loans are being evaluated with greater scrutiny to be sure they are well-collateralized. There is much more caution with real estate and mortgage loans. There is aggressive competition for deposits and a shift towards longer-maturity deposits that are more expensive for banks. Net interest margins are being squeezed, particularly for small-to-midsize financial institutions, and many respondents say they cannot take deposit rates much lower.

**Energy.** Drilling remained strong, with domestic activity increasing to the highest number of rigs working in the current expansion. Natural gas production was reported to be 8 percent higher than a year ago.

**Agriculture.** Planting conditions have improved, although some parts of the District remain unusually dry. High crop prices are offsetting high fuel, fertilizer and production costs. Supplemental feeding of livestock continues in most areas, and feed costs are high.

**TWELFTH DISTRICT–SAN FRANCISCO****Summary**

Economic activity in the Twelfth District appears to have been largely flat on net during the survey period of March through the beginning of April. Upward pressures on labor costs continued to moderate in some sectors, while upward price pressures were subdued for most products but remained strong for food and energy-intensive items. Retail sales weakened further and demand growth for services continued to slow. Manufacturing activity was mixed across sectors but appeared to hold steady on net, while agricultural producers saw solid growth in sales. Demand for residential real estate remained exceptionally weak, and demand for commercial real estate softened a bit in some areas. Banking contacts reported that loan demand was largely unchanged or fell slightly on net and credit standards tightened further.

**Wages and Prices**

Price inflation was modest overall, but upward pressures remained strong for food and energy products. Final prices were stable or down for most retail items, and prices fell further for selected building materials, especially wood products. By contrast, high prices for energy-related inputs and some raw materials, such as steel and resin, created upward pressures on final prices for transportation services and assorted categories of manufactured and agricultural products. Prices for various agricultural commodities and food continued to rise rapidly.

Wage pressures were modest in general, with contacts noting only small increases in overall labor costs. Upward wage pressures moderated further in sectors that have seen reduced labor demand in recent months, such as construction, retail, finance, and real estate. However, wage increases remained rapid for engineers and other highly skilled technical workers in selected manufacturing industries, such as aerospace, and in computer and software services.



**Retail Trade and Services**

Retail sales continued to soften. The pace of sales slowed at department stores and for a variety of smaller retail chains, causing inventories to rise further above desired levels and some retailers to cancel orders for new goods. Discount chains reportedly performed better than traditional department stores, although one contact pointed to a surprising degree of strength for luxury goods. The volume of gasoline sales was reported to be down significantly compared with 12 months earlier. Sales of new automobiles and light trucks were very slow for both imported and domestic makes, and demand for used vehicles weakened significantly, with one report pointing to a “collapse” in March.

Demand growth for service providers eased overall. Growth continued at a moderate pace for providers of health-care services. However, for providers of real estate services, such as title insurance, activity remained at very low levels and contacts reported significant contractions in employment. Demand for advertising has been on a downward trend, and contacts in software services reported that sales slowed as businesses scaled back their spending on information technology equipment. Travel and tourism activity rebounded a bit in Hawaii, with gains in visitor counts and spending evident relative to 12 months earlier. By contrast, in Southern California, hotel bookings for the spring and summer have been running significantly below their levels from last year, and in Nevada casino revenues recently recorded their slowest growth rate in four years.

**Manufacturing**

District manufacturing activity was mixed across sectors but appeared to hold steady on net during the survey period of March through the beginning of April. Production activity and new orders remained strong for makers of commercial aircraft and aerospace products used for

national defense. Semiconductor manufacturers reported moderate growth in revenues accompanied by balanced inventories and high rates of capacity utilization, with solid growth in unit sales propelled in part by robust overseas demand. Demand growth for food manufacturers reportedly ranged from moderate to strong. By contrast, lumber mills continued to curtail production and shed jobs in the Pacific Northwest, and demand remained weak for District apparel makers.

### **Agriculture and Resource-related Industries**

Demand and sales grew further for agricultural products. Solid growth in domestic and overseas sales pushed revenues higher for a variety of tree and row crops and also for livestock, although these gains were partly offset by cost increases arising from higher prices for grain, fertilizer, and petroleum-based inputs in general. Contacts in Southern California reported concern over pending cuts in water deliveries caused by a prolonged drought in the Colorado River Basin, which may curtail spring plantings.

### **Real Estate and Construction**

Conditions in District housing markets remained exceptionally weak during the survey period, while demand for nonresidential real estate eased a bit further. Demand for new and existing homes was very weak, and contacts reported rising foreclosure rates in parts of California, Nevada, and Arizona. Prices continued to fall noticeably in the weakest areas, and they have flattened or begun to fall in other areas that had shown resilience well into 2007, such as Utah and parts of the Pacific Northwest. On the nonresidential side, activity slowed a bit further. Contacts reported reduced demand and lower prices for commercial properties in the San Francisco Bay Area, further increases in commercial vacancy rates in Las Vegas, and sluggish nonresidential construction activity in the San Diego area.

## **Financial Institutions**

Reports from District banking contacts suggest that lending activity was largely flat or fell slightly relative to the previous survey period. Reports on commercial and industrial lending were mixed, with little change reported in some areas and declines reported in others, suggesting a slight decline on net. Refinancing activity for home mortgages picked up a bit further, but demand for new mortgages remained at very low levels. Lending standards remained quite restrictive for residential mortgages and construction loans and they tightened a bit further for consumer and business borrowers in general.