

For use at 2:00 p.m., E.D.T.
Wednesday
July 23, 2008

Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

July 2008

**SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICT**

July 2008

TABLE OF CONTENTS

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

SUMMARY*

Reports from the twelve Federal Reserve Districts suggest that the pace of economic activity slowed somewhat since the last report. Five eastern Districts noted a weakening or softening in their overall economies, while Chicago characterized its economy as sluggish and Kansas City noted a moderation in growth. St. Louis said activity was stable and San Francisco reported little or no growth. Cleveland and Minneapolis reported slight increases in economic activity, while Dallas described growth as steady and moderate.

Consumer spending was reported as sluggish or slowing in nearly all Districts, although tax rebate checks boosted sales for some items. Tourist activity was mixed, with residents in several Districts choosing to vacation closer to home due to high gasoline prices. The demand for services was also mixed across Districts, with strength in the IT and health care industries offsetting some weakness in other service sectors. Manufacturing activity declined in many Districts, although demand for exports remained generally high. Residential real estate markets declined or were still weak across most of the country. Commercial real estate activity also slowed or remained sluggish in a majority of Districts, although a few Districts noted slight improvement. In banking, loan growth was generally reported to be restrained, with residential real estate lending and consumer lending showing more weakness than commercial lending. Districts reporting on agricultural activity said conditions were mixed, based largely on how June precipitation affected them. Districts reporting on the energy sector said it continued to strengthen.

* Prepared at the Federal Reserve Bank of Kansas City and based on information collected on or before July 14, 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.

All reporting Districts characterized overall price pressures as elevated or increasing. Input prices continued to rise, particularly for fuel, other petroleum-based materials, metals, food, and chemicals. Retail price inflation varied across the country, with some Districts reporting increases but others noting some stability, at least for the present. Wage pressures were generally limited in most Districts, as labor market demand was soft except for highly skilled workers and in the energy sector.

Consumer Spending and Tourism

Consumer spending was reported as mixed, weak, or slowing in nearly all Districts since the last report, although tax rebate checks boosted sales for some items, especially electronics. Cleveland was an exception to the trend, characterizing sales as stable to improving outside of the grocery sector. Sales at discount stores were also reported as growing in the Philadelphia, Richmond, St. Louis, Dallas, and San Francisco Districts, and New York reported brisk sales in New York City. However, sales at most other types of stores, especially for discretionary and housing-related items, were typically characterized as weak or falling, and restaurant sales were also reported as slow in the Philadelphia and Minneapolis Districts. The outlook for retail activity was also generally downbeat, with expectations “subdued” among Atlanta District contacts and “grim” among Dallas District contacts. Despite sluggish overall sales, inventories were reported as largely satisfactory in most Districts.

Reports on automobile sales were almost uniformly weak across Districts. Sales were especially poor for large vehicles such as trucks, SUVs, and some minivans. Indeed, auto dealers in the San Francisco District were increasingly reluctant to accept trade-ins of trucks and SUVs due to a lack of a wholesale market for these vehicles. Demand for small fuel-efficient and foreign vehicles was reported to be solid or increasing in the Philadelphia, Cleveland,

Chicago, Minneapolis, and Dallas Districts. Dallas reported that consumers were paying sticker prices for such vehicles, and that they were in short supply.

Tourist activity was mixed across Districts. Contacts in the Philadelphia and Chicago Districts reported weakness, and San Francisco said travel to Hawaii declined noticeably. Atlanta also noted increased hotel cancellations and shorter trip durations, although convention business remained strong. By contrast, tourist activity to mountain areas of the Richmond, Minneapolis, and Kansas City Districts was characterized as stronger, which some contacts attributed in part to more residents vacationing close to home due to high gasoline prices. New York also reported strong tourism activity in New York City, including for Broadway shows and at Manhattan hotels.

Nonfinancial Services

The demand for services was mixed among the various Districts, with strength in the IT and health care industries offsetting some weakness in other service sectors. Advertising and marketing firms in the Boston District experienced robust demand from the tourism and retail industries, and St. Louis reported the addition of two new call centers in the area. Dallas noted particularly strong demand for accounting, energy, engineering, and IT services. On the negative side, New York, Richmond, Minneapolis, and San Francisco reported services activity as mixed or decreasing. San Francisco noted “grim” conditions for real estate services such as title insurance, and some service firms in the New York District expressed caution about hiring due to ongoing turmoil in the financial industry. In transportation services, New York, Atlanta, and Dallas reported weaker activity due to higher fuel costs, while Cleveland said activity remained unchanged and Richmond indicated an increase in shipping volume. New York said fuel, as opposed to labor, was now the number one cost for trucking firms and that most surcharges were

considered inadequate to defray the escalated costs. Cleveland reported that many trucking firms had reduced capital spending, with little change expected in coming months. Atlanta and Dallas noted a decline in auto and construction materials shipments. Most services contacts expected flat activity heading forward.

Manufacturing

Manufacturing activity declined or remained weak in most Districts, although Cleveland, St. Louis, and San Francisco reported stable or slightly increasing activity. Many Districts reported a decline in production of housing-related goods, such as construction equipment, wood products, home furnishings, and HVAC units. The Cleveland, Atlanta, Chicago, and St. Louis Districts all reported declines in auto manufacturing activity. However, St. Louis noted a slight rise in demand for parts of small and hybrid-type cars. An equipment producer in the Richmond District cited reduced sales due to interrupted shipments caused by higher gas prices and restrictive truck schedules. On the positive side, producers of energy equipment saw increased demand in several Districts, and Minneapolis noted a rise in orders for wind turbine parts. San Francisco said that food manufacturers continued to operate at or near peak capacity due to persistently high demand. Cleveland, Richmond, Chicago, and Kansas City reported continued high demand for exports. Dallas noted strong overseas sales of high-tech products in Asia, but cited weak demand in Western Europe. Some manufacturers in the Boston District cited examples of robust demand in foreign markets, while others said foreign demand growth may be slowing. Manufacturers in several Districts anticipated further factory weakness in the near future. While most Districts expected stable capital spending heading forward, a few noted manufacturers' plans to reevaluate based on current economic conditions.

Real Estate and Construction

Residential real estate markets declined or were still weak across most of the country. Slower home sales were reported in the Boston, Philadelphia, Richmond, Atlanta, and St. Louis Districts. Cleveland reported flat to declining sales, while sales remained sluggish in the Kansas City and New York Districts—especially at the high end—and were below year-ago levels in the Minneapolis District. New York also reported a drop in Manhattan condo and co-op transactions. Inventories of unsold homes or condos were reported as higher or excessive in several Districts, but Dallas noted a continued decline in inventories, especially at the low end. Home prices continued to decline in most Districts, and increased use of incentives and discounting was noted in several Districts. San Francisco noted particularly sharp declines in home prices in areas of California, Arizona, and Nevada that have experienced large increases in foreclosures. Atlanta said home prices dropped across the board. On the other hand, home prices were said to be holding up in the Dallas District and were little changed in the Kansas City District. Difficulties obtaining mortgage financing were reported in the New York and Chicago Districts. All Districts reporting on single-family construction said activity continued to decline, and builders in the Philadelphia District noted a rising number of cancellations. The decline in new construction accelerated in some areas of the Chicago District.

Commercial real estate activity weakened or remained sluggish in a majority of Districts, although Cleveland, Minneapolis, and Kansas City noted some improvement. Boston characterized sentiment in the sector as “decidedly morose,” and industrial markets were especially weak in that District. Office market conditions in the Richmond District continued to weaken and were “bleak” in the Washington, DC area. Vacancy rates increased in the Philadelphia and Atlanta Districts, and were up noticeably in both Midtown and Downtown

Manhattan, according to contacts in the New York District. Office rents remained steady in the Philadelphia District, and were little changed in the Boston District after taking concessions into account. More positively, contacts in the Minneapolis District noted rent increases and positive absorption in the Minneapolis-St. Paul area office market. Districts reporting on nonresidential construction generally noted sluggishness, which contacts in the Chicago and Kansas City Districts attributed in part to prohibitively high construction costs. Contractors in the Cleveland District were also worried about cuts but reported strong backlogs and a steady flow of inquiries. Contacts in many Districts also cited tightened financing as a constraint. San Francisco noted particularly steep drops in commercial construction in the San Diego area. Retail space was described as overbuilt in the Boston and Chicago Districts.

Banking and Finance

Loan growth was generally reported to be restrained across the country, with residential real estate lending and consumer lending showing more weakness than commercial lending. Overall loan demand was reported to have weakened in the New York, Kansas City, and San Francisco Districts, and was described as sluggish in the Philadelphia District. St. Louis reported slightly positive overall loan demand. A number of Districts reported sluggish growth or slowing demand for residential real estate loans, and San Francisco described demand for such loans as very weak. Consumer loan demand was reported to have declined in the New York, Chicago, and Kansas City Districts, and grew more slowly in the Philadelphia District. Reports on business lending were generally more upbeat. However, slight to moderate declines in business lending were reported in the New York, Kansas City, and San Francisco Districts. On the funding side, Dallas described competition for deposits as very tough, but Cleveland

indicated that core deposits at smaller banks were stable to increasing as a result of a flight to safety by investors.

Most Districts reported a further tightening of credit standards, especially for residential real estate and construction loans. Dallas reported that lenders were tightening non-price terms and boosting loan spreads in response to increases in their cost of capital. Tighter standards for construction loans were reported in the Atlanta and Chicago Districts, and San Francisco indicated that credit standards remained quite restrictive for both residential real estate and construction loans. Tighter standards for business loans were reported in three Districts, but banks in the Atlanta District were reported to be competing more intensely for business customers with good credit histories. Kansas City and Boston reported that tightened standards were especially prevalent on commercial real estate loans.

Among the Districts that commented on bank loan quality, some deterioration was reported, including in the Philadelphia, Richmond and San Francisco Districts. New York reported increased delinquencies on consumer and residential real estate loans, and San Francisco indicated that declines in loan quality were greatest for real estate loans and construction loans. In the Dallas District, contacts had not yet observed a significant decline in loan quality but expected deterioration in coming months, especially for residential real estate and consumer loans.

Agriculture and Natural Resources

Agricultural conditions were mixed across Districts following June precipitation, while high input costs trimmed profits. Drought conditions eased in the Richmond, Atlanta, Minneapolis, and Dallas Districts with increased rainfall. However, Chicago, St. Louis, Minneapolis, and Kansas City reported that cool, wet weather delayed corn and soybean

development, and Chicago cited major crop losses due to flooding. Heavy rains also delayed the winter wheat harvests in the Richmond, St. Louis, and Kansas City Districts, although initial reports indicated average or above average wheat yields. San Francisco noted robust agricultural export activity, but wildfires hindered growing conditions in that District. Most Districts reported concerns about higher input costs. Kansas City attributed slightly lower farm income expectations and increased agricultural loan demand to these higher costs. Chicago, Minneapolis, Kansas City, and Dallas also indicated that livestock producers were struggling with higher feed costs.

Energy activity strengthened further with rising energy prices. Oil and natural gas drilling remained strong in the Cleveland, Kansas City, Dallas and San Francisco Districts, with expectations of further exploration. In the search for new energy sources, Dallas noted increased drilling activity toward unconventional natural gas sources, and Kansas City cited rising interest in tapping shale oil deposits. Minneapolis stated that wind farm development continued, although ethanol production slowed with higher corn prices. Mining activity increased in the Cleveland and Minneapolis Districts. Cleveland indicated that equipment costs were rising, while the lack of equipment constrained oil and gas production in the Kansas City District.

Prices and Wages

All reporting Districts characterized overall price pressures as elevated or increasing. Input prices continued to rise, particularly for fuel, other petroleum-based materials, metals, food, and chemicals. Chicago said the rate of growth in steel prices had flattened, but overall levels remained high. Construction industry contacts in the Cleveland District noted rising prices for all types of products, including concrete, shingles, and steel. Boston reported that contacts were anticipating further price increases in oil derivatives, shipping, and travel. Many Districts

reported on manufacturers' plans to raise selling prices as a result of higher input prices, with several commenting on fears of a corresponding decrease in customer demand and overall sales volume. Several firms in the Philadelphia District indicated that sluggish demand has made it difficult to raise prices, and Atlanta District businesses were hesitant to pass-through increases due to a reduction in discretionary consumer spending. One producer in the Richmond District indicated that his company would attempt to pass along price increases to customers but it may not be enough to offset cost increases. Retail prices increased in several Districts, including in the Kansas City District—which reported an increase in hotel, restaurant, and resort prices—and in the Chicago District, where retailers said they raised selling prices in response to higher wholesale prices. On the other hand, New York and Cleveland reported relatively stable retail prices. San Francisco also reported that final prices for many retail items were stable or down, partly due to extensive discounting, although some contacts noted that pressures were likely to increase in coming months. One major retail chain in the New York District said that while costs under existing contract were not up substantially, some escalation in prices was expected within the next year.

Most Districts reported labor markets as unchanged or slightly weaker compared with the last survey period, and that wage pressures were generally modest. Demand for labor remained high for skilled workers in most industries, while several Districts reported widespread weakness in the financial services, auto, and construction industries. Contacts in the Cleveland, Atlanta, Chicago, and Kansas City Districts reported very little upward wage pressures, with the exception of the energy and skilled labor markets. San Francisco noted some downward movement in wages for construction, finance, real estate, and retail jobs. But Boston and Dallas said more workers were requesting wage adjustments to supplement cost of living increases.

FIRST DISTRICT – BOSTON

Business contacts in the First District generally report slowing economic activity. Retailers and manufacturers are seeing declines or slower growth in sales or revenues than in the last few reports; commercial and residential real estate contacts continue to be downbeat. The exceptions are consulting and advertising contacts, who cite healthy revenue growth. Most respondents mention cost pressures, especially from transportation and energy; manufacturers generally say they are raising selling prices.

Retail

Most retail contacts in the First District report a downturn in sales results for the months of May and June, but there were a few bright spots. Same-store sales range from low double-digit decreases to low single-digit increases from a year earlier. Even those contacts reporting positive sales growth say that consumers are scaling back their spending.

Most retailers report reducing inventory levels in response to softening sales. Headcount levels are mixed, with several respondents reporting reductions. Capital spending is also mixed. All contacted First District retailers mention cost pressures, mostly relating to petroleum and metal-based items. Several respondents are taking, or looking for ways to take action to address increased transportation costs for both merchandise and their employees.

Overall, First District retailers are cautious to cautiously optimistic in their outlook and expect the economy to remain a challenge until early to mid-2009.

Manufacturing and Related Services

Most manufacturers and related services providers headquartered in the First District see signs of current or future softness. A broad range of companies report that sales are slow, that sales growth has slowed, or that sales growth is expected to slow by the fall.

Demand for housing-related items remains weak; a home furnishings manufacturer is planning a major promotion in an attempt to avoid layoffs and an HVAC components manufacturer is shutting a factory. Makers of consumer nondurables complain of poor sales at retail stores and restaurants. A manufacturer of components for consumer durables just enjoyed its “best quarter ever,” but has marked down sales projections starting in the fourth quarter. A couple of manufacturers provide selected examples of robustness in foreign markets, but others note that foreign demand growth may be slowing. Contacts say that financial and legal services firms have become hesitant to lease office equipment and subscribe to data services. By contrast with the general trend, biopharmaceutical companies continue to report strong sales growth.

Almost all contacted manufacturers voice concerns about elevated materials, transportation, and energy costs. They are anticipating further hikes in prices for oil derivatives, shipping, and travel. Respondents generally have raised their selling prices in recent months, except for products governed by long-term contracts or subject to intense competition. Over one-half of contacts expect to increase their

selling prices further in the second half of 2008 and/or early 2009. While some contacts express worry that price increases have led or will lead to losses of market share, others indicate that their customers have become more receptive to price increases because they see them as a consequence of generalized cost pressures.

About one-half of manufacturing respondents are contemplating (mostly small) layoffs in the second half of 2008. Some of the remaining firms are continuing to recruit for added science and engineering positions. On the whole, contacts raised U.S. wages and salaries in the first half of 2008 and plan no further adjustments this year, particularly since turnover rates have stabilized or declined. However, some note upward pressures because employees are increasingly voicing dissatisfaction with their pay in light of rising living costs.

Manufacturers generally say that second-half capital spending will remain in line with their annual plans, reflecting needed investments. Some mention they will be taking a harder look at discretionary spending, and a few indicate that ongoing financial market distress is deterring plans for IPOs and acquisitions.

Manufacturers expect a weak or weaker economic environment in the second half of 2008 and the first half of 2009. They describe themselves as “cautious,” “concerned,” “discouraged,” or “anxious”—especially with respect to consumer spending and sentiment.

Selected Business Services

The majority of First District selected business services contacts report double-digit first quarter revenue growth from a year ago. Demand for consulting services from the healthcare and information technology industries is robust; however, demand from the airline industry has softened significantly. Advertising and marketing firms are seeing robust demand from the tourism industry to promote local destinations as well as from the retail industry.

Most firms are keeping bill rates stable after increasing them at the end of 2007 or at the beginning of 2008. Several respondents note increased travel costs and fuel surcharges. Advertisers are either hiring key senior staff or keeping headcounts stable. Headcounts at all of the contacted New England consulting firms are growing, but at a slightly slower rate than revenues. One consulting respondent notes that a number of people on the job market are looking to “jump to stability,” making recruiting a challenge for smaller firms. Contacted consulting firms indicate they are increasing salaries less this year than they did last year.

The majority of New England consulting respondents expect steady revenue growth for the remainder of 2008, although they remain concerned about the economy.

Commercial Real Estate

Sentiment was decidedly morose among commercial real estate contacts this cycle, with the exception of a small mutual bank that continues to enjoy robust demand for its small-scale commercial

property loans. Contacts in Providence, Boston, and Hartford all indicate that leasing activity was very slow in recent weeks, even slower than expected based on seasonal considerations. They say that businesses are stalling on lease renewals in the expectation of getting more favorable deals in the near future as the market continues to soften. Still, no dramatic increases in vacancy rates have emerged as yet. In the metropolitan areas of Boston, Hartford, and Providence, office rent growth appears close to zero after concessions are taken into account. The industrial property market has been very weak in both Connecticut and Rhode Island—in the latter case, vacancies are up and rents are down (both modestly) compared to last year.

Sales activity is limited as credit remains very tight and buyers and sellers hold out for their preferred prices. Investment sales and new construction have been hit particularly hard. For example, three major building projects in downtown Boston (office and mixed-use high rises) are said to be currently languishing as they scramble to obtain tenant commitments and financing. As evidence that property valuations have fallen relative to operating incomes, sources report that capitalization rates for commercial property in greater Boston are now approaching 7 percent, up from last summer's estimated 5 percent. Despite enjoying brisk business and high commercial mortgage interest rates, a small Boston mutual bank foresees that it could run up against lending capacity constraints before year's end. Accordingly, lending officers at the bank have been instructed to adopt a "more selective" stance.

Compared with the last report, contacts are less optimistic that market conditions will improve by year's end. One commercial broker is cautioning his clients to be prepared for a long period of stagnation in commercial property values and leasing demand. Another is concerned that retail space is in oversupply in relation to forecasts of weak consumer demand. Despite such pessimism, contacts do not predict a major bust in the market unless the regional employment picture worsens dramatically in the coming months, an eventuality that contacts currently take to be unlikely.

Residential Real Estate

Residential real estate markets in New England continue to show slower sales in 2008 than in 2007. In Massachusetts, home sales decreased 10 percent year-over-year in May (although the monthly change represents the largest April-to-May sales increase in 10 years), while condo sales decreased nearly 25 percent. Connecticut and New Hampshire experienced year-to-date home sales declines of 27 percent and 23 percent, respectively, compared to the same period last year. Rhode Island home sales decreased 18 percent year-over-year in April.

Median home prices in Massachusetts decreased 9 percent year-over-year in May, while condo prices held steady. Connecticut and New Hampshire both report year-to-date median home price declines of 9 percent compared to 2007. Rhode Island home prices dropped 11 percent year-over-year in April.

SECOND DISTRICT--NEW YORK

The Second District's economy has shown further signs of softening in recent weeks. Manufacturers report that business activity has been steady to slower since the last report, and that increases in both input costs and selling prices remain widespread. Contacts at non-manufacturing firms generally report further weakening in business conditions. The labor market has slackened since the last report. Consumer confidence slipped to new lows in June; however, retailers report that sales were mixed but, on balance, close to plan. Tourism activity in New York City has held relatively steady, but at a high level, since the last report. Housing markets have shown further signs of deteriorating, with sales activity down and prices flat to lower; Manhattan's rental market has also shown signs of softening. Office markets in and around New York City were mostly softer in the second quarter. Finally, bankers report weakening demand for loans (especially consumer loans), further tightening in credit standards, and increasing delinquency rates in the household sector.

Consumer Spending

Retailers report that sales were mixed but, on balance, close to plan in July, led by continued brisk business in New York City. Sales were up modestly from a year earlier, overall, led by a pickup in sales of seasonal apparel. Inventories are reported to be satisfactory levels. Retail selling prices are reported to have remained steady since the last report; one major chain notes that costs for merchandise already contracted for the upcoming holiday season are not up substantially, but reports some significant escalation in costs for spring 2009 merchandise. Consumer surveys indicate further deterioration in confidence. The Conference Board's survey of Middle Atlantic state residents (NY, NJ, PA) shows consumer confidence declining for the ninth straight month, to a 15-year low, in June. Similarly, Siena College's survey of New York State residents shows confidence slipping to its lowest level in that survey's 9½ year history in June.

Tourism activity in New York City has remained fairly stable at a high level since the last report. Broadway theaters report that business picked up somewhat in recent weeks, after a sluggish spring season. After slipping roughly 5 percent below year-earlier levels in May and early June, attendance and revenues were up 3-4 percent from comparable 2007 levels since mid-June. Average ticket prices are running slightly lower than a year ago. Manhattan's hotel occupancy rate held steady just below 90 percent in June, while room rates continued to run about 6 percent above comparable 2007 levels—about the same as in May but somewhat below the 8-10 percent gains recorded in the first few months of 2008.

Construction and Real Estate

Housing markets in the District showed further signs of softening in the second quarter. Manhattan's rental market showed signs of slackening: a major rental brokerage reports that rents at mid-year were flat to down slightly from a year ago, while the vacancy rate reportedly climbed from 0.8 percent at mid-2007 to 1.2 percent. Separately, a leading appraisal firm reports that selling prices of Manhattan co-ops and condos declined moderately on a quarterly basis but were still up about 11 percent from a year earlier (on a per square foot basis), reflecting a shift toward more sales of luxury apartments. At the same time, the number of transactions tumbled more than 20 percent, and the listing inventory was up more than 30 percent. Brooklyn's market showed even more weakness, with prices little changed from a year ago and the number of sales down more than 40 percent; most of the weakening was in the market for 1-3 family homes, with the condo and co-op market showing some resilience.

A contact in New Jersey's housing industry indicates that the market continued to deteriorate in recent months but not dramatically. Prices have declined by an estimated 15 percent from peak levels in 2005-06, with most of the decline coming in the past year. Sales activity is still described as weak; while buyer traffic is said to be holding up at the lower end of the market (under \$300K), it is described as very weak at high end. Builders note that it has grown increasingly hard for prospective homebuyers to qualify for a mortgage. Single-family construction has reportedly dropped off sharply over the past year,

but multi-family re-development in urban areas has remained fairly stable.

Office markets in the region showed further signs of slackening in the second quarter. Vacancy rates rose noticeably in both Midtown and Downtown Manhattan—particularly for sub-lease space; moreover, one industry contact notes an increase in “shadow space” (space that is unused but not officially available), which suggests further slack in the market. Vacancy rates were little changed at high levels in northern and central New Jersey, edged up in Fairfield County, but edged down in Westchester. Asking rents fell in northern and central New Jersey but continued to rise across most of the metro area. However, asking rents are conjectured to be overstating the underlying strength of the market somewhat, due to increased concessions. In contrast with the general weakening in the office market, New York City’s retail rental market is still characterized as fairly resilient. Finally, an industry contact notes that new hotel development has virtually ground to a halt but that the pipeline of existing development is larger than ever (close to 15,000 rooms), though a number of these projects are having trouble getting adequate financing.

Other Business Activity

A major New York City employment agency, specializing in office jobs, reports that hiring activity slowed further in June and early July. Large Wall Street firms are holding off on hiring, while hedge firms are hiring only sporadically. Firms in other industries are more cautious about hiring due to ongoing turmoil in financial industry. The number of people looking for jobs has increased but not as much as anticipated. In general, non-manufacturing firms in the District report fairly widespread weakening in business activity and anticipate steady to declining employment.

New York State manufacturers report that business activity continued to weaken somewhat in June and early July, and a growing number report declining employment at their establishments. Contacts continue to note increasingly widespread escalation in both prices paid and prices received. A trucking-industry expert reports that the industry is having a very difficult year and that a sizable number

of firms have gone out of business—especially small to medium-sized firms. Demand has reportedly weakened substantially, and fuel surcharges are considered inadequate to defray all of the escalating costs of gasoline. This contact notes that fuel has now surpassed labor as the number one cost for trucking firms.

Financial Developments

Bankers report weakening loan demand—particularly in the consumer loan category, where 50 percent of bankers indicate a drop in demand and only 12 percent report a rise; respondents also indicate weaker demand for home mortgage and commercial and industrial loans, but little change in demand for commercial mortgages. Bankers also report declining refinancing activity, on balance. Respondents indicate a tightening of credit standards across all loan categories: the proportion of bankers reporting higher standards ranged from 26 percent in the commercial and industrial category to 35 percent on consumer loans. No respondents indicate eased standards for any type of loan. Bankers report narrowing spreads of loan rates over cost of funds in the consumer sector, but little change in other loan categories. Finally, bankers indicate increased delinquencies on consumer loans and residential mortgages but little change in delinquency rates for commercial mortgages and commercial and industrial loans.

THIRD DISTRICT – PHILADELPHIA

Business conditions in the Third District weakened somewhat from June to July. Manufacturers, on balance, reported declines in new orders and shipments. Retailers posted mixed sales results, with year-over-year increases at discount stores but decreases at most other types of stores. Motor vehicle sales continued to fall, and the year-over-year decline has worsened. Bank lending has been increasing slowly in recent weeks. Residential real estate sales and construction activity have eased further. Commercial real estate leasing and construction activity have remained sluggish. Reports of increases in input costs and output prices were somewhat more common in early July than they were in June.

The outlook among Third District businesses varies. Manufacturers forecast increases in shipments and orders during the next six months, but they have become less confident of a strong recovery. Retailers generally do not expect a near-term strengthening in sales, and auto dealers expect slow sales to persist through the rest of the year. Bankers anticipate a sluggish advance in overall lending. Residential real estate agents and home builders expect sales to continue to remain slow for some time. Contacts in commercial real estate expect leasing and construction activity to remain soft as long as overall economic conditions are uncertain. Service sector firms expect slow growth.

Manufacturing

Third District manufacturers reported a fall in shipments and new orders, on balance, during early July compared with June. Around one-third of the manufacturers surveyed noted declines in those measures, twice as many as reported increases. Most of the firms that noted increased demand for their products cited company-specific circumstances for the gains; overall, there did not appear to be any clear industry pattern to the mix of positive and negative reports.

The outlook in the Third District manufacturing sector remains positive despite the ongoing slowness in activity. Nearly one-half of the manufacturers contacted for this report expect new orders and shipments to rise during the next six months, and around one-fifth expect declines. However, since the last Beige Book more manufacturers say the outlook has become less clear and capital expansion plans remain limited. One firm cited “general uncertainty about demand” and another said “concern about tax increases are a drag on business expansion.”

Retail

Retailers in the Third District gave mixed reports on sales in early July. Discount stores posted year-over-year gains, but most other stores had declines. Discount, department, and appliance stores generally received a boost from sales of appliances and consumer electronics, especially televisions, which they attributed to income tax rebates. However, the increase in sales of these items was not sufficient to raise total sales above the year-ago level for most retailers. Despite what one store executive termed “very large markdowns” on many types of merchandise, total sales have fallen below the year-ago level for many stores. Business contacts also noted that restaurant business has declined since the spring and that vacation-related spending has not been strong. Store executives see no signs that consumers will step up spending soon. They observed that store traffic has declined and that consumers seem to be limiting themselves to what one retailer called “targeted shopping trips” for specific needed items.

Auto dealers in the region reported a continuing downward sales trend in early July. Although sales of some foreign small cars were rising, total sales of light vehicles were well below the level of a year ago. Dealers reported a sharp shift in preferences for different types of vehicles, resulting in an undesired rise in inventories of pickup trucks and SUVs while supplies of small cars have been inadequate to meet demand. Dealers expect a prolonged period of slower sales while buyers’ interest in large vehicles remains low and manufacturers retool to produce more small cars.

Finance

Total outstanding loan volume at Third District banks has been increasing slowly in recent weeks, according to bankers contacted for this report. There have been slight gains in all major credit categories. Most of the banks surveyed reported slow but steady growth in commercial and industrial lending, an easing in expansion of consumer credit, and very slight increases in real estate lending. Several banks indicated they were putting limits on new home-equity lending and reducing amounts available under existing home-equity credit lines. Banks were generally raising credit standards. One lending officer said his institution was “tightening standards across the board,” and another said his bank was “paring back loan-to-value ratios” for

real estate lending. Nonbank financial companies were also tightening credit standards, and some were curtailing lending to certain industries, particularly real estate and retailing. Banks generally reported further deterioration in credit quality across all loan categories. Looking ahead, bankers expect loan growth to remain sluggish until overall business conditions show definite signs of strengthening.

Real Estate and Construction

Residential real estate activity in the third District has weakened since the spring. Residential real estate agents reported sales of existing homes have slowed, and home builders continued to see falling sales and rising cancellations. Real estate contacts also reported that sales prices of both existing and new homes continued to decline, although they indicated that in most parts of the District the drop has not been steep. Real estate agents said economic uncertainty and concern about the future course of house prices was restraining home buying. One agent said “buyers are looking at more homes and taking longer to buy” and another said “the unstable economy continues to bring anxiety to a lot of pent up potential demand.”

Commercial real estate firms indicated that construction, leasing, and purchase activity remained sluggish. Rents have been steady. However, there has been an increase in the overall vacancy rate, according to some commercial real estate agents, as tenants have reduced their occupied space and offered unused space on the sublet market. Contacts anticipate that markets will likely continue to be soft while economic conditions remain unsettled. As one contact explained, because “there’s too much uncertainty, tenants adopt the do-nothing strategy” and negotiate short-term lease extensions rather than look for new or expanded space.

Services

Service-sector firms generally reported modest growth in business conditions in early July. Some business services firms indicated that growth had slowed since the spring, while others reported that growth has been steady. Some technology consulting companies and engineering firms indicated that they were seeing increased demand for services directed toward energy conservation, but some other engineering firms noted that work on environmental projects has slowed. Most of the service-sector firms contacted for this report expect business to continue to expand during the rest of the year, although some business services companies

expect slower growth in the second half of the year compared with the first half as their client firms implement measures to reduce operating costs, including expenses for outsourced services.

Prices and Wages

Reports of increases in input costs and output prices were somewhat more prevalent in July than they were in June. Firms in the region noted on-going increases in the prices of food products, chemicals, industrial materials, metals, and energy. Many firms indicated that sluggish demand for their products has made it difficult for them to raise prices; nevertheless, companies that have significant commodity and motor fuel expenses generally reported that they were raising prices in response to the increased cost of these inputs. Most of the firms reporting on employment costs in July indicated that wage increases remained moderate. Employers and employment agencies in the region reported that demand for labor has not been as strong in the past few months as it was during the same period last year.

FOURTH DISTRICT – CLEVELAND

Economic activity in the Fourth District increased slightly since the beginning of June. Factory output was largely stable, though auto production declined. The housing industry remains weak, with no improvement expected for the remainder of the year. Most commercial builders reported that business is expanding and backlogs are up. Sales by District retailers were steady to improving. Demand for business loans grew, while lending to households was mixed. Energy production was stable to increasing. And freight transport volume has been flat.

On balance, employment levels were largely unchanged, and wage pressures were limited to energy producers. Staffing firms saw a slight increase in the number of job openings, while the number of job seekers was unchanged. Job vacancies were greatest in health-care, energy, steel, and chemicals. Reports of rising input prices, especially for metals and petroleum-based products, were widespread.

Manufacturing. Output by District factories was largely stable during the past six weeks. Reports of higher production levels were attributed to seasonal factors and rising exports, while declining output was ascribed to weakening economic conditions. On a year-over-year basis, reports were evenly split between production slowdowns and increases. Most manufacturers are anticipating some slowing in orders during the upcoming months. Capacity utilization was at, or slightly below normal levels. Steel producers and service centers reported a softening market, which they attributed to a downturn in the auto industry. The strongest end users for steel include energy and capital goods producers. Our contacts expect steel demand to remain at current levels or decrease slightly during the third quarter. District auto production showed a small decline in May on a month-over-month basis, with decreases reported by domestic and foreign nameplates. In terms of year-over-year comparisons, auto production was down appreciably.

Capital spending remains on plan; however, about a third of our respondents said that they expect to cut back on capital projects in the upcoming months. Credit remains available to qualified applicants. Almost all of our contacts reported price increases for raw materials, especially metals and petroleum-based products. In response, three-fourths of them raised their product prices recently. Looking forward, expectations call for prices to continue rising—

especially for commodities. However, only half of our respondents said that they would consider additional price increases in the near future. On net, employment at District factories showed a slight uptick, although some hires are on a temporary or contract basis. Wage pressure is not a major issue at this time.

Real Estate. Home builders reported little change in market conditions—flat to declining sales and a slowdown in traffic. Further, builders are not expecting any upturn in the industry for the remainder of the year. Half of our respondents reduced the list prices on new homes and discounting remained widespread. Accounts of price increases for concrete, shingles, metal products, and fuel were common; in contrast, lumber prices were stable to declining. Subcontractors are readily available at very competitive rates. Several general contractors reported employee layoffs during the past few weeks, and none is expected to increase wages during 2008.

Most commercial contractors said that business is expanding. Several mentioned that their companies have strong backlogs and a steady flow of inquiries. However, builders told us that they are concerned about rising input prices and their ability to maintain current margins and backlogs. Nevertheless, they do not foresee any dramatic downturn in business. Several contractors commented that although financing is available, lending standards are becoming tighter. Contract pricing remains stable outside of rising materials costs, especially for steel, concrete, and petroleum-based products. Workforce levels remain largely unchanged, and little wage pressure was reported.

Consumer Spending. District retailers reported stable to improving sales across most segments—food being the exception—since our last report. Grocery store managers said that sales were flat to declining. Our respondents were very cautious in their outlook for the third quarter, with the expectation of some slowdown in sales. Reports from auto dealers indicate that purchases of new and used cars were flat to down, the exception being fuel-efficient cars, which are “selling well.” Purchases of SUVs and trucks were characterized as poor. Dealers anticipate little change in sales during the coming weeks. In general, vendor price increases were limited to food items and paper products. For the most part, capital spending remains on plan, though we heard reports of some retailers taking on additional projects. Employment levels and wages

remain stable.

Banking. Demand for commercial and industrial lending has been growing, especially at community banks. Segments showing strength include commercial real estate and energy. On the consumer side, loan demand is best characterized as mixed. However, almost half of our respondents reported a slight increase in auto loans. Home mortgage origination was slow, with any pickup attributed to seasonal factors. Bankers told us that lending standards are very tight and will remain so for the foreseeable future. Reports on delinquencies and credit quality were mixed. Core deposits were stable to increasing, with several community bankers characterizing deposit increases as a “flight to safety” from equity markets and large banks. On net, there has been little change in employment levels across District banks. Wage pressures are not a major issue at this time.

Energy. Oil, gas, and coal production has been steady to increasing during the past six weeks. Looking forward, almost all our contacts told us that they expect to see a rise in production levels due to increased demand. Reports indicate that spot and contract prices have increased across the board, together with equipment and materials costs. Capital expenditures were on plan or slightly higher than projected. Half of our respondents told us they expect to increase the number of capital projects in the upcoming months. Most producers reported that credit remains readily available. Almost all oil and gas producers hired additional employees during the past six weeks or plan to expand payrolls in the near future. Wage pressures are an issue due to competition for skilled workers.

Transportation. Freight transport volume has been flat during the past six weeks, with most carriers expecting current market conditions to persist through the second half of 2008. Reports indicate that auto shipments are down, while steel remains strong. Fuel prices continue to rise. Attempts to pass through these increases via a surcharge have met with mixed results. Over half of our respondents reported that capital spending has slowed considerably, with little change expected in the coming months. Hiring was limited to driver turnover, and any wage increases fell within industry norms.

FIFTH DISTRICT—RICHMOND

Overview. The Fifth District economy weakened further in June and early July. Retail contacts reported generally falling sales, though discounters told us they were seeing increased sales of certain items. Additionally, residential real estate sales were slower in most markets, as was residential lending activity. Commercial leasing activity also weakened across most markets, with little new construction expected, while demand for temporary workers was weaker. Manufacturing activity declined overall, though exports showed further growth since our last report. In contrast, commercial lending activity was seen as stable, on balance, with mixed reports across markets in the District. Similarly, we received mixed reports from the services industries, and also mixed reports of tourism activity during the holiday weekend. Retailers and manufacturers noted further input price increases, but had uneven results passing the additional costs through to their customers.

Retail. District retail contacts reported generally falling sales in recent weeks, except at discount stores where retailers said sales and shopper traffic had picked up. A retail spokesperson in central Virginia told us area grocery stores and golf courses had begun using gas vouchers as incentives. In West Virginia, a sporting goods store manager said he had an inventory backup along with significant increases in supplier prices. Rising supplier prices also affected a central Virginia hardware chain; an executive there reported reduced inventories to match falling sales. In contrast, a big box discount retailer reported increased foot traffic and sales of grocery and entertainment items as more people received government stimulus checks. Automobile and light truck dealers said their sales continued to slide, especially for domestic vehicles. Retailers eliminated jobs in recent weeks and wage growth was flat. Retail prices grew a bit more slowly since our last report, although several contacts noted that ongoing supplier price increases would be passed through to customers.

Services. Contacts at services-providing firms gave mixed reports. A central Virginia financial services provider said, "The situation is dour—clients are very discouraged right now." Executives at various healthcare systems and hospitals in North Carolina reported that demand for services stabilized or rose. Telecommunications contacts in West Virginia and in Washington, D.C., said revenue growth picked up in recent weeks. In addition, national freight trucking companies in the District told us that their shipping volume rose. The pace of hiring remained flat at services firms. Price growth slowed at most services firms, but average wages grew somewhat more quickly, notably at several healthcare facilities.

Manufacturing. District manufacturers reported that activity continued to pull back in June and early July as shipments, new orders, and employment contracted. Respondents generally attributed the drop off to shortages of raw materials and interrupted shipment schedules. A South Carolina chemical manufacturer indicated that some of the slowdown was caused by a shortage of raw materials from China.

In addition, a contact at a machinery factory in North Carolina reported that interrupted shipment schedules, due to higher gas prices and restrictive truck schedules, had reduced sales. Price pressures remained elevated and respondents continued to voice concern over rising energy and transportation costs. A producer of door components in North Carolina told us that price increases from suppliers continued to come in unabated and that demand, which seemed to have stabilized, had decreased again. He indicated that his company would attempt to pass along price increases to its customers but he did not know if it would be enough to offset cost increases.

Fifth District export activity continued at a healthy clip in June and early July. Port officials reported sustained growth in outbound tonnage, which was “still growing in double digits” at one port. Import volumes remained steady in recent weeks, although several officials noted slight slowdowns from Northern Europe. Fuel surcharges continued to rise and respondents believe “they are here to stay.”

Finance. Residential lending activity cooled across most of the District in recent weeks. Contacts in the Carolinas described conditions as “slow” and “quieter still,” while activity was slightly weaker in Richmond, Va., and the outer markets of Washington, D.C. Credit standards continued to tighten a bit, according to lenders in Washington, D.C., Richmond, Va., Charlotte, N.C., and Hilton Head, S.C. Additionally, several lenders reported diminishing credit quality.

On the commercial lending front, activity was generally stable. Loan demand ranged from steady to slightly up across Virginia and the Carolinas, although activity weakened somewhat in the Washington, D.C., and Charleston, W.Va., markets. Contacts in Washington, D.C., Charlottesville, Va., and Charlotte, N.C., reported further tightening in credit, especially for projects in real estate-related industries. Credit quality showed signs of deterioration in Washington, D.C., Virginia, and the Carolinas, where lenders reported an uptick in client bankruptcies and weaker financial statements.

Real Estate. Residential real estate agents across the District reported generally slower home sales in June and early July as uncertain economic conditions kept some prospective buyers sitting on the sidelines. Several contacts reported increased buyer traffic and many listings but not many sales. A Virginia Beach, Va., Realtor described that housing market as “anxious,” adding that people were “waiting to see what’s going to happen.” Additionally, a Fairfax, Va., contact told us the “heart of his market” had softened but remained “very fragile.” In Richmond, Va., an agent predicted “a real challenge” for the housing market to turn around before the end of 2008. In contrast, sales were good in the Greenville, S.C., market, and an agent in Charlotte, N.C., reported flat sales with an expected increase later this summer. Several Realtors across the District reported lower house prices and ongoing builder incentives for buyers.

Commercial real estate conditions continued to weaken across most of the Fifth District. Contacts in Washington, D.C., Richmond, Va., Charlotte, N.C., and Columbia, S.C., reported that leasing activity for office space had subsided, with a Greensboro, N.C., agent adding, “things are sluggish for

everyone.” Demand for retail space was mixed. Contacts in Charleston, W.Va., and Raleigh, N.C., noted a slight increase in activity, but conditions were “bleak” in Washington, D.C. Vacancy rates were mostly firm and rental rates were generally unchanged. Contacts in the Washington, D.C., and northern Virginia markets, however, reported owners accepting offers lower than asking prices, while office rental rates were up slightly for new space in Raleigh, N.C. No major construction was announced recently, and agents reiterated that clients were having difficulty financing new projects.

Tourism. Assessments of tourist activity varied in recent weeks. Respondents at mountain resorts in Virginia and West Virginia reported stronger bookings for the week of the July 4th holiday compared to a year ago. A manager at a mountain resort in Virginia told us that residents of nearby urban areas were vacationing closer to home this summer. He noted that owners of time shares were “using” rather than “renting,” which he attributed to higher gasoline prices and the close proximity of his establishment. In contrast, contacts on the Outer Banks of North Carolina and in Myrtle Beach, S.C., indicated that bookings had slowed compared to a year ago and noted that upscale restaurant patrons were cutting back on food and beverages. Looking forward, a hotelier at Myrtle Beach, S.C., reported that higher gasoline prices were reducing fall bookings in his area.

Temporary Employment. Fifth District temporary employment agents generally reported weaker demand for workers since our last report. Overall economic weakness was cited as the culprit for the very weak demand for temporary workers in the Hagerstown, Md., area. Contacts in Raleigh, N.C., and in Richmond, Va., expected demand to strengthen over the next few weeks as clients transitioned from summertime to the fall business season. Additionally, some clients who had put projects on hold earlier in the year “to see how the economy turns out” were now ready to move forward with their planned projects. Those skills most highly sought after included higher level professionals and those with technical, credit, collections, and legal experience.

Agriculture. Scattered rainfall throughout the region brought relief to some District crops and lessened the drought stress in several areas. In North Carolina, showers helped alleviate drought concerns in the Central Piedmont and Central Coastal regions of the state, while precipitation in South Carolina improved peanut growing conditions. Despite beneficial rains, a contact in Maryland indicated that some fields were showing signs of stress due to dry conditions. Additionally, an analyst in South Carolina noted that some Upstate pastures had already gone dormant from a lack of moisture. On a brighter note, apple and peach crops were reported to be in generally good condition in Maryland, and the winter wheat harvest was nearing completion in Virginia with yields looking favorable.

SIXTH DISTRICT – ATLANTA

Summary. Sixth District business contacts indicated that overall economic activity weakened from June through mid-July. Retailers and auto dealers reported that sales were lower than expected. Tourism-related activity was mixed. After noting some stabilization in recent months, contacts reported that residential real estate activity declined somewhat in June. Building contractors indicated that commercial development remained weak and most industrial contacts reported that production and volume of shipments were down from a year earlier. Banking contacts reported that credit availability remained tight. Labor markets remained weak. Further price increases were noted in energy, metals, and agricultural commodities.

Consumer Spending and Tourism. District retailers reported that weakness persisted during June and early July with sales performing below expectations. Despite this, inventory levels had not increased appreciably according to the majority of contacts. Merchants' expectations for the next several months were subdued. District vehicle sales continued to be weak, with contacts noting lower traffic and sales. Tourism-related activity was mixed. Hotel owners noted increased cancellations and shorter trip durations. Convention attendance remained strong in June. However, some weakness in future bookings was noted.

Real Estate. Reports from homebuilders and Realtors indicated that new and existing home sales remained below year-earlier levels for June and early July. Contacts reported that sales activity had weakened again in June after having noted some stabilization in April and May. Overall, housing inventories increased and home prices declined across the District. The outlook for residential sales and construction activity over the next several months was weaker relative to previous reports.

Most District commercial contractors continued to note declines in construction activity on a year-over-year basis. Weakness remained most pronounced in Florida. Retail development slowed significantly, while vacancy rates among all commercial property types rose in most parts of the District. Overall, commercial contractors anticipate further softening through the remainder of the year and a weak 2009.

Manufacturing and Transportation. Contacts reported that both production levels and the volume of shipments were down in June from a year earlier. A majority of

manufacturers continued to report reductions in employment and hours. Most contacts also noted higher prices for raw materials and energy. Automobile production at District plants remained weak overall.

Rapidly rising fuel prices continued to affect regional transportation companies. Most trucking contacts reported lower net revenues in the first quarter. Regional rail activity was down in June compared with a year earlier as shipments of automotive and construction materials continued to drop, offsetting gains in coal, minerals, and farm products. Inter-modal shipments were lower than year-earlier levels.

Banking and Finance. Most District banking contacts reported that credit conditions remained tight. The utilization of C&I lines of credit increased, while some businesses were also reported as using credit cards, personal borrowing, or delaying payments as a means of managing cash flows. Some creditors noted that while there has generally been less willingness on the part of banks to finance construction projects, there has also been an increase in competition for commercial customers that have a solid credit history.

Employment and Prices. More firms noted a reduction in hours and/or employment levels in June and early July than was noted in previous reports. However, the persistent shortage of certain types of skilled labor continued. Several employers noted that highly skilled workers are being kept on payrolls as long as possible because of concerns about being able to hire them back later. Wage increases were pronounced in energy-related industries and the healthcare sector.

District firms continued to struggle with higher input costs, especially for energy-related goods and services. Reports of businesses trying to pass on higher costs to consumers increased, but with only limited success, or with limited expectation of being able to repeat price increases should costs increase further. According to several business contacts, higher food and gasoline prices were cutting into consumer discretionary spending on other goods and services.

Agriculture. Scattered rains improved soil moisture levels to segments of the District, in particular Alabama and parts of Georgia. However, extreme drought conditions still persisted in North Georgia and South Central Florida. Many District

growers continued to report that costs for fertilizer, feed, and diesel were up substantially from a year earlier.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District was sluggish in June. Consumer spending was mixed and labor market conditions weakened some, although they continued to vary by location. Residential construction declined further and nonresidential construction showed signs of slowing. Manufacturing activity weakened slightly. Consumer lending declined, while business lending was stable. Cost pressures from rising material and energy prices remained high, while wage pressures continued to be low. Flooding and cool weather further set back crop conditions in June, although they improved toward the end of the month and in early July.

Consumer spending. Consumer spending was mixed since the previous reporting period. Federal tax rebates and increased discounting boosted retail sales, but spending on automobiles slowed. Consumers continued to tighten their budgets in response to higher food and energy prices. Spending on discretionary items such as furniture, apparel, and electronics decreased and gasoline consumption fell, while food service sales were flat. Higher fuel prices discouraged travel, leading to a slowdown in tourism. Tourism was also adversely affected by inclement weather and flooding in some areas of the District. Light vehicle sales were lower; contacts reported that General Motor's sales incentives helped buffer the decline in June. Higher demand for fuel efficient cars left dealers in short supply of these vehicles and with higher inventory levels of trucks and SUVs.

Business spending. On balance, the pace of business spending was little changed from the previous reporting period. A large manufacturer of heavy equipment is increasing capacity at two of its Illinois plants in what marks its first significant increase in capacity in the state in twenty years. Labor market conditions in the District weakened some, with Michigan exhibiting a larger decline due to developments in the automotive industry and Iowa experiencing a small drop due to the impact of the recent flooding. Lay-offs were reported in the automotive and financial services industries. A contact in retail trade noted that increases in the minimum wage for several District states in July were reducing the demand for new hires. The demand for skilled labor remained strong and shortages of such workers continued to be reported. In addition, a staffing firm reported that billable hours were relatively stable from the previous reporting period.

Construction/real estate. The pace of construction slowed slightly from the previous reporting period. The decline in residential construction continued in June, and accelerated in some parts of the District. In general, prices continued to fall, although one contact noted some improvement in lower-tier prices. Absorption rates of residential housing remained low and many

builders continued to report an excess of inventories, particularly for spec homes. Showroom traffic slowed; and although financing inquiries increased, many potential buyers were still finding it difficult to either obtain a mortgage or sell their existing home. Credit also remained tight for new developments. Nonresidential development and construction showed signs of slowing. The rising cost of road building materials and tightening government budgets restricted the growth of infrastructure construction. Construction of retail outlets slowed further and several contacts expressed concern about overbuilding in the sector. The availability of financing for new commercial projects continued to tighten.

Manufacturing. Manufacturing activity in the District weakened slightly from the previous reporting period. Demand for heavy machinery for oil and gas extraction and mining remained strong. However, contacts reported continued weakness in the demand for residential construction equipment as well as some recent softening for nonresidential construction and agricultural equipment. Demand also remained soft for manufacturers with close ties to housing, such as the home appliance industry. Cut-backs were reported in the production of ethanol; several already-idle plants are being kept off line and a few additional plants have been shut down. Export-oriented industries continued to do well, but contacts noted a recent slowing in the pace of growth, particularly in demand from Europe. Activity remained strong in the domestic steel industry, and a contact in the pharmaceutical industry reported continued strength. Automakers reported domestic sales were lower in June and early July. Contacts also noted an acceleration of the shift in demand toward smaller vehicles, and that sales declines had spread to previously popular segments such as crossover vehicles. Accordingly, production cuts were planned for larger less fuel efficient vehicles.

Banking/finance. Credit market conditions in the District tightened from the previous reporting period. Funding costs rose amid renewed volatility in financial markets. Consumer loan demand continued to decline as lenders further tightened standards. Higher interest rates have reduced the demand for both mortgage originations and refinancings. A contact in the home loan industry noted that risk pricing guidelines for FHA lending set to go into effect in July will likely tighten the mortgage market further. Business loan demand was steady, particularly for commercial and industrial loans. However, a contact noted unwillingness on the part of banks to engage in unsecured business lending. In addition, concerns about the residential and commercial real estate markets limited the availability of credit for construction loans from banks.

Prices/costs. Costs remained high for a variety of inputs. Increases in commodity, food, and energy prices were again cited by contacts in various industries. There were also several reports of

pass-through of these higher costs to downstream prices. The rate of growth in steel prices flattened, but prices remained elevated. The scrap market remained tight with some producers struggling to get materials. One contact noted, however, that inventories at steel service centers were lean in part due to anticipation of a possible future decline in prices. Transportation costs were boosted by fuel surcharges, and retailers reported raising their prices in response to higher wholesale prices. A contact in the service station business reported pressure on margins from higher costs from credit card transaction fees. Wage pressures remained limited outside of the skilled labor positions that continue to experience shortages and the impact of new state minimum wages on the retail trade industry.

Agriculture. Flooding compounded the problems of already slower-than-normal corn and soybean planting in the District. Planting delays due to excess precipitation continued to affect every state in the District except Michigan. Crop insurance and other disaster programs likely will offset much of the economic loss to farmers. The corn acreage expected to be harvested this fall dropped more for the District than for the U.S., while for soybeans it increased relatively less. Although crop development lagged that of a year ago by 2 to 3 weeks, warmer and drier weather toward the end of June and in early July improved crop conditions in the District. Corn and soybean prices were higher at the end of the reporting period, but remained below their recent nominal records. Grain elevators and farmers faced higher needs for liquidity to cover futures positions, resulting in constraints on sales of future crops. Milk and cattle prices climbed, while hog prices fell. Livestock operators continued to struggle with rising feed costs, which have led some hog farmers to reduce their breeding stock.

VIII-1

Eighth District - St. Louis

Summary

Overall economic activity in the Eighth District has remained stable since our previous report. Contacts noted increases in the services sector and, except for the auto industry, in manufacturing. Retail sales reports were mixed. Auto sales were down in June and the first half of July compared with a year ago. Home sales continued to decline throughout the District. Lending at a sample of small and mid-sized District banks increased slightly from early April to mid-June.

Manufacturing and Other Business Activity

Manufacturing activity, excluding automobile manufacturing, continued to increase slightly since our previous report. Several manufacturers reported plans to open plants and expand operations in the near future, while a smaller number of contacts reported plans to close plants and reduce operations. Firms in the food manufacturing and plastic parts manufacturing industries reported plans to open new facilities in the District. Contacts in plastics, frozen food, and nonmetallic mineral product manufacturing industries reported plans to expand existing facilities and operations. Firms in furniture manufacturing and those firms listed as planning new openings and expansions all reported plans to hire additional workers to meet growing demand. In contrast, contacts in the automotive and automotive parts industry reported various plans to lay off large numbers of workers, idle production shifts, and decrease operations because the demand for trucks and minivans made in the Eighth District is weak. Contacts in the automotive industry are not optimistic that production will increase in the short term. However, a few automotive parts manufacturers that supply parts to producers of small cars and hybrid vehicles are seeing an increase in demand and plan to hire additional workers. Three firms in the

automotive parts manufacturing industry announced that they will close a plant in the District. Contacts reported concerns about the ensuing effects on employment from ongoing consolidations in the brewing industry in the St. Louis area.

The District's services sector continued to expand in most areas. Several firms in the business support services industries announced plans to expand facilities and hire additional workers. Two new call centers will support a major retail operation and a computer manufacturer. In contrast, many healthcare services firms announced plans to lay off workers and consolidate operations. One healthcare service provider announced plans to close its facilities. Retail contacts expressed some concern heading into the summer months, as consumers make fewer trips and seem more willing to postpone big purchases. Discount retailers reported an increase in sales while retailers of large durable goods reported weak sales. Auto sales were down in June and the first half of July compared with the same period last year. Auto dealers indicated that sales of domestic trucks and minivans were down sharply.

Real Estate and Construction

Home sales continued to decline throughout the Eighth District. Compared with the same period in 2007, May 2008 year-to-date home sales were down 19 percent in Memphis and Louisville and 16 percent in Little Rock and St. Louis. Residential construction also continued to decline. May 2008 year-to-date single-family housing permits fell in nearly all District metro areas compared with the same period in 2007. Permits declined 57 percent in Memphis, 41 percent in Louisville, 42 percent in St. Louis, and 34 percent in Little Rock.

Commercial real estate construction reports were mixed throughout the District. A contact in western Kentucky reported that commercial construction is relatively strong, while a contact in northeast Arkansas reported that commercial construction is very spotty. A top

regional contracting contact in Memphis was optimistic concerning projects for the remainder of 2008, but a contact in Evansville, Indiana, reported that industrial construction has slowed.

Banking and Finance

Total loans outstanding at a sample of small and mid-sized District banks increased 0.5 percent from early April to mid-June. Real estate lending, which accounts for 73.9 percent of total loans, was essentially unchanged. Commercial and industrial loans, accounting for 16.9 percent of total loans, increased 1.3 percent. Loans to individuals, accounting for 4.9 percent of total loans, decreased 0.2 percent. All other loans, roughly 4.3 percent of total loans, rose 5.8 percent. During this period, total deposits at these banks decreased 2.0 percent.

Agriculture and Natural Resources

The development of the District's major crops remains behind its 5-year averages. In early July, at least 88 percent of the total corn, soybeans, cotton, sorghum, and rice were rated in fair or better condition—comparable to last year. As a percentage of total acres planted, farmers in the District states plan to harvest 5 percentage points less corn for grain and 3 percentage points less soybeans than in 2007, partly because of recent flooding in Illinois, Indiana, and Missouri. The winter wheat harvest is at least 93 percent complete in over half of the District states, but less than 70 percent complete in Illinois, Indiana, and Missouri. Based on July estimates, total winter wheat production in the District states is expected to be about 77 percent larger than last year.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew slightly since the last report. Modest increases in activity were noted in tourism, mining and commercial real estate. Activity in manufacturing, commercial construction, agriculture and energy was mixed. Decreased activity was noted in services and residential construction and real estate, while consumer spending was sluggish. Overall labor markets softened slightly since the last report; nevertheless, some industries reported difficulty finding qualified workers. Wages increased moderately, while significant price increases were noted for fuel and energy; lumber prices were lower.

Consumer Spending and Tourism

Overall consumer spending was sluggish. A major Minneapolis-based retailer reported same-store sales in June were up 0.4 percent compared with a year earlier. A number of Minnesota retailers noted weakened consumer spending, and some indicated that funds from the economic stimulus checks were being used to buy fuel and groceries rather than discretionary purchases. A Minnesota retail property manager noted that traffic and sales appeared to be down during the past few months. In addition, two restaurant contacts noted that business was slow. Recent sales and traffic at a Minneapolis area mall were up slightly over a year ago; traffic over the Fourth of July weekend was solid, according to the mall manager.

An auto dealers association in Minnesota reported that new retail car and light truck registrations are expected to fall almost 4 percent in 2008 compared with 2007. A representative of the association noted that sales and traffic at dealerships were very slow in June across all types of vehicles. In contrast, an auto dealer in Montana said that sales were on par with a year ago for foreign cars with high fuel efficiency.

Tourism activity increased. A bank director noted that recent visitor numbers were up Montana. Tourism officials in western South Dakota noted solid activity during the early part of the summer season. A Minnesota-based travel agent noted that leisure travel was still up, although some customers were electing to travel closer to home instead of going abroad. The number of international tourists traveling to Minnesota increased. Crossings of the International Bridge in Sault Ste. Marie in the Upper Peninsula of Michigan were up about 3 percent in June compared with a year ago.

Services

Activity in the services sector was down slightly. Contacts from information technology reported reduced activity, especially for support of the financial services industry. District contacts from the accounting profession expected flat revenues, profits, prices and productivity over the next 12 months. However, health care service firms continued to expand.

Construction and Real Estate

Commercial construction was mixed. Some contractors noted that the number of open bids was down and that competition has intensified. A 200-acre biotechnology research complex was under development near Rochester, Minn. The value of June commercial building permits in Sioux Falls, S.D., was up 5 percent from a year ago. Residential construction remained slow. June residential permits were down 51 percent from year-earlier levels in Minneapolis-St. Paul; permits were flat in Fargo, N.D.

Commercial real estate activity increased slightly. Contacts reported rent increases and positive absorption in the Minneapolis-St. Paul area office market. One of the region's largest office towers in downtown Minneapolis was put up for sale. However, the retail property sector remains weak throughout the District. The residential real estate market continued its slump. Pending home sales in Minneapolis-St. Paul were down more than 3 percent in June compared with a year earlier; average sale prices fell 12 percent. Reports indicated that home foreclosures recently increased in Rapid City, S.D.

Manufacturing

Overall manufacturing activity was mixed since the last report. A June survey of purchasing managers by Creighton University (Omaha, Neb.) indicated increased activity in the Dakotas and slightly decreased activity in Minnesota. Wind turbine and parts makers in South Dakota and Minnesota reported strong demand. A Minnesota boat maker reported decreased orders.

Energy and Mining

Activity in the energy sector was mixed, while mining sector activity increased since the last report. Oil and gas exploration and production were steady at high levels in the District. Expansion of wind farms continued. However, several ethanol plants reduced production and planned expansions were delayed due to higher input costs. Growth in the

mining industry continued since the last report, as construction on a new mine began in Montana and an iron ore processing line reopened in Northern Minnesota.

Agriculture

Agricultural conditions were mixed. Crop progress was behind last year and the five-year average for District corn and soybean producers. Almost all of the District was free from drought. Most of the Montana and South Dakota small grain crops were rated good or excellent. The majority of pastureland was rated good or excellent, although cattle producers were concerned about higher input costs.

Employment, Wages and Prices

Overall labor markets softened slightly since the last report; nevertheless, some industries reported difficulty finding qualified workers. In Minnesota, an airline plans to reduce employment and a travel and hospitality company announced plans to cut 200 jobs due to a smaller market for business travel. A hospital in North Dakota recently revealed plans to lay off 100 workers. A temporary staffing agency survey of Minneapolis-St. Paul businesses showed that 37 percent of respondents expected to hire workers during the third quarter, while 29 percent expected to reduce staff. In last year's survey, 44 percent expected increased hiring and 11 percent anticipated decreases.

In contrast, some custom manufacturers in Minnesota and the Upper Peninsula were concerned about attracting qualified workers to fill open positions. In North Dakota, difficulty finding qualified trades workers for jobs at coal operations is expected to increase during the next few years as more construction projects come online and retirements increase.

Wage increases were moderate. Among respondents to a recent St. Cloud (Minn.) Area Business Outlook Survey, 35 percent expected employee compensation to increase over the next six months, down from 38 percent in last year's survey.

Significant price increases were noted for fuel and energy; while lumber prices were lower. A number of fuel surcharges were being placed on top of transportation and some raw materials prices. Minnesota gasoline prices at the end of June were \$1 per gallon more than a year ago. Recent jet fuel and diesel fuel prices were about 75 percent higher. Residential customers of a Montana natural gas utility were recently paying about 50 percent higher prices for natural gas compared with a year ago. In contrast, prices for lumber were down about 3 percent to 4 percent.

TENTH DISTRICT- KANSAS CITY

Economic growth in the Tenth District moderated slightly in June and early July. Most retailers reported flat, but weaker than expected sales. Manufacturing activity dipped in the period, but the outlook was relatively positive, given current conditions. The residential real estate sector remained depressed, but seemed to stabilize. Commercial real estate saw some improvement, but the outlook was modest. The energy sector continued to boom and agricultural conditions were generally favorable despite severe storms. Prices for raw materials, including fuel, continued to increase significantly, and some of these costs were beginning to be passed through to finished products.

Consumer Spending. Retail spending was flat from the previous survey period, but virtually all retailers reported that sales were lower than planned. Many, although not all, of the retailers seeing a decline in spending from a year ago were related to the residential construction industry in some way. Some business contacts reported that low consumer confidence and high gasoline prices have softened sales. Most auto dealers reported sales were down for the month and for the year, especially for large trucks and SUVs. Access to credit remained a concern for many auto dealers. The tourism industry was a relative bright spot in the Tenth District, especially in the Rocky Mountains, with visitor counts up for the month and year. Although airlines were cutting routes, passenger traffic remained strong, especially in Denver. Restaurant activity was flat, despite higher menu prices.

Manufacturing. Manufacturing activity declined in June and early July. Production and employment levels fell, and most firms continued to reduce inventories. Expectations for future factory activity were generally positive, however, driven in part by persistently high demand for exports and agricultural and energy equipment. Capital spending plans were mostly unchanged, but some firms planned to reevaluate based on surging fuel prices. More producers than in past surveys were beginning to pass-through cost increases to consumers, which some contacts feared

could seriously cut demand.

Real Estate and Construction. The residential real estate market in the District was weak, but has stabilized, while commercial real estate activity improved modestly, but with a weaker outlook. Residential sales remained slow in most areas, with a particularly low demand for higher-priced homes, but most agents expected little change in sales volume in the near-term. Prices were lower than last year, but there was little change in prices since the last survey period. At the same time, home price appreciation slowed in some areas in the District where appreciation had been considerably stronger in the last several months. New residential construction softened, and with rising construction costs, existing homes were expected to be much more attractive than new homes. District commercial real estate contacts reported an uptick in sales and leasing activity from the previous survey period, although activity still remained unexceptional compared with last year. Both commercial vacancy and absorption rates moderated from the previous period. Several contacts reported that new construction has been sluggish due to increasing costs and scarce financing options, and some expect this sluggishness to continue or worsen in the near-term. Developers reported a slight decrease in current prices and rental rates, and most expected this to continue in the near future.

Banking. Bankers reported tighter credit standards and slightly weaker loan demand than in the previous survey. Demand for commercial and industrial, commercial real estate, and consumer installment loans declined moderately, while demand for residential real estate loans and agricultural loans remained essentially unchanged. About half of respondents reported a tightening of credit standards for commercial real estate loans, the same as in the previous survey. A quarter of respondents reported tightened standards for commercial and industrial loans, less than in the previous survey. There also continued to be reports of tightened standards for residential real estate and consumer installment loans. A little less than half of the banks said overall loan quality was down from a year ago, but some banks said loan quality had improved.

Energy. District energy activity continued to be very robust in June and early July.

Even though the District count of active drilling rigs was down slightly, contacts reported increased activity since the last survey period. In addition, energy firms planned to expand production over the next three months. Filings for intents to drill were up in Oklahoma, and some Colorado contacts noted that companies were exploring the idea of tapping shale oil deposits in northwestern Colorado. Energy companies continued to report that financing was readily available, but production was constrained by a lack of qualified workers and the availability of equipment.

Agriculture. District agricultural conditions were generally favorable after a series of severe storms in June. Crop prices rose to record highs in June as heavy rains delayed the wheat harvest and the planting of corn and soybeans. After a slow start to harvest, District contacts reported average to above average wheat yields. High feed costs continued to limit livestock profits despite stronger cattle and hog prices. Rising input costs fueled an increase in agricultural loan demand and tempered robust farm income expectations. Farmland price appreciation also slowed from its record pace.

Wages and Prices. Price pressures continued to build since the last survey period, but wages remained steady with little upward pressure. Rents were up generally for hotels and resorts, and many restaurants and retailers also reported higher prices since the last survey period and for the year. District manufacturers reported much higher input prices, especially for steel, and for steel plate in particular. Much higher prices for other raw materials and fuel also were reported. A large number of manufacturers were being squeezed by energy prices. Increasingly these higher input prices were being passed on, causing increases in finished goods prices, or alternatively, razor-thin profit margins. Builders also reported higher costs, including for lumber, for which prices recently have been flat. District labor shortages persisted, most notably for retail and tourism jobs and in the energy sector, and hiring announcements continued to outpace layoffs. However, wage pressures remained muted, and while some firms worried about future wage pressure, most firms had no plans to raise wages.

ELEVENTH DISTRICT—DALLAS

Most contacts in the Eleventh District reported steady, moderate economic growth in June and early July. The main exception was home builders, who reported a steeper decline in demand. Most contacts reported increased concern about price pressures and uncertainty about the national outlook. Rising prices for energy and transportation were reported as boosting costs for a wide range of industries and were said to be likely to lead to future increases in final product prices.

Prices. Continued increases in energy and commodity prices are negatively affecting a wide range of industries. Many producers report that profit margins have been squeezed and that productivity gains are no longer sufficient to hold off product price increases. Because existing price contracts and many retailers require up to six months notice of price increases, many firms report that they plan to raise prices significantly in the second half of this year.

Since early June, light sweet crude prices have been fluctuating while setting record highs. Natural gas prices have also been high and volatile. Natural gas inventories are well below the inflated levels of last year. Futures prices for distillates (heating oil and diesel), spot gasoline, and oil- and natural gas-based chemicals have also increased sharply over the past six weeks.

Labor Market. The labor market remained relatively tight, but most respondents reported flat to only slightly increasing payrolls. Respondents in slumping industries, such as those tied to construction of single-family homes, reported some reductions in hours worked and making some job cuts through attrition. Many respondents continued to report difficulty hiring skilled workers such as engineers, mechanics and certain administrative personnel. Overall wage pressures remain mild, but respondents reported an increasing number of workers asking for cost-of-living increases. One respondent also noted that the upcoming increase in the minimum wage will significantly increase the firm's wage costs.

Manufacturing. Producers of materials used in home construction—such as brick, stone and lumber—reported continued weak conditions. Several construction-related manufacturing respondents reported larger than desired inventories and said that they are reducing production to bring inventories down. Although overall lumber prices are falling, some lumber producers in the District report that rising energy, freight and import costs have led them to increase prices.

Although still solid and above year-ago levels, demand for commercial construction materials continued to soften and is expected to weaken steadily. Respondents in fabricated metal production said that demand was flat to slightly down, that backlogs are decreasing and that new orders and expectations of declining nonresidential building suggest further weakening. Primary metal producers report that sales have been flat to slightly down while costs have shot up. One contact reported that his natural gas bill increased 100 percent over a year ago.

High-tech manufacturers reported continued moderate sales growth. Firms selling products outside the U.S. with most inputs priced in dollars are performing well. Semiconductors are seeing upward pressure on prices, although a recent effort to raise prices did not stick. Demand was reported as steady for communication devices. Sales to Asia remained strong but were weak in the U.S. and Western Europe.

Demand in the food products industry has been moderate with contacts reporting some recent improvement in sales growth. While demand from restaurants has slowed slightly, a pickup in retail demand has more than offset the slowing. High food prices continue to be a major concern, and manufacturers of processed food report that they have not yet been able to pass along all of the increases. Specialty transportation manufacturers such as aircraft parts and emergency vehicles say that sales remain solid and their outlook is positive. Oil-based ethylene producers are operating at relatively low rates, while those that use natural gas are enjoying large cost advantages and operating full out. Meanwhile, demand for polyethylene is strong because weak domestic sales have been offset by strong exports.

Retail Sales. Retail sales were mixed—with discount stores reporting stronger sales and other retailers reporting flat to slightly declining sales. Transportation costs and prices of commodity-based products and imported goods continue to rise, squeezing profit margins. Inventories were reported at desired levels, and employment was up for firms with new stores but down for individual store locations. One contact reported that accounts past due have increased recently. Most retailers said that their outlook for the remainder of the year is grim because consumer budgets are tight and the economy is weak.

Auto dealers reported mixed demand. The switch to small, fuel efficient cars has continued and has led to a shortage of such vehicles. Consumers are paying sticker prices for some small cars while domestic auto producers are offering rebates and large discounts, especially on trucks.

Services. Demand for temporary staffing services picked up slightly over the past six weeks. Orders were strongest for professional and technical workers in IT, accounting, energy and engineering services. Demand for entry-level clerical work remained weak, but demand for HR professionals and manufacturing workers edged up. One contact noted that the labor market in Texas is doing much better than in other parts of the country.

Demand for legal services continued to grow moderately, with most of the growth concentrated in litigation and bankruptcy. With the exception of continued strength in oil and gas, legal services to support transactions have declined. Demand for accounting services remained modest.

Trucking companies reported reduced shipping volumes in the last month. Import volumes have declined and are not being completely offset by exports. Record fuel prices, along with price increases in almost every area of operations are having a major impact on the industry. Railroad cargo volumes have been steady over the last 30 days. Rail shipments of residential construction materials continued on a downward trend and those of nonresidential building materials were only up slightly. Rail shipments of

primary forest material—a leading indicator for residential construction—have edged up over the last four weeks. Shipments of motor vehicles fell sharply.

Airline demand has not changed much since the last survey. In response to rising jet fuel prices, airlines are reducing capacity, laying-off workers, and increasing fares.

Construction and Real Estate. Homebuilders said that traffic and sales weakened fairly significantly in June, following weak but steady demand earlier in the spring. As a result, the pace of single-family building activity has declined at a rapid pace. Contacts said a number of factors—such as a weak stock market and higher gasoline and food prices—have weakened demand. On a more positive note, inventories of unsold homes continued to decline, especially at the lower end, and prices were holding up. There was some concern, however, about the large inventory of vacant lots and reduced funds for real estate lending.

Respondents say that nonresidential construction activity is beginning to slow and there are signs that activity may decline further. Commercial real estate respondents noted a continued decline in investment deals getting done, particularly for larger projects. There were reports of a general drying up of liquidity in the market and a flight of capital out of real estate. On the upside, higher quality assets did not see a major deterioration in value. Industrial and office leasing continued to weaken.

Financial Services. Financial services contacts reported that although there has been no significant decline in credit quality, they expect deterioration in coming months. In particular, the quality of mortgage and consumer loans is a concern as home prices soften and consumer budgets are strained. Contacts say that the increased cost of capital has induced them to widen loan interest rate spreads and to tighten non price terms of credit. Competition for deposits is very tough, and lenders are turning to other sources of liquidity. Commercial lending activity remains fairly solid.

Energy. Rising energy prices have pushed oil and natural gas drilling sharply higher in recent months. Land-based drilling directed to unconventional sources of natural gas has seen the largest gains. Drilling companies are adding jobs but report having difficulty finding workers with the skills they need.

Agriculture. Recent rains have provided some relief in most parts of the District suffering from drought-like conditions. Crop prices continue to be favorable and are helping offset high fuel, fertilizer and other production expenses to some degree. High feed costs and low hay and corn feed supplies have weakened prices for stocker cattle and are hurting livestock producers.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

The reports suggest that the Twelfth District economy experienced little or no growth during the survey period of June through early July. Upward price pressures remained severe for food and energy-intensive items but were moderate otherwise, and wage pressures eased further. Retail sales were sluggish, and demand growth slowed further for service providers. Manufacturing activity expanded on net, while sales remained strong for agricultural items and most natural resource products. Housing markets showed no signs of recovery from their prolonged slump, and demand for commercial real estate continued to weaken. Contacts from financial institutions indicated that loan demand and credit quality fell slightly on net.

Wages and Prices

Price inflation was moderate for most items, although increases in food and energy prices continued to put upward pressure on overall inflation. Final prices for many retail items were largely stable or down, partly due to extensive discounting, although some contacts noted that upward price pressures have been building and will cause increases in final prices in coming months. Prices continued to increase for many commodities and raw materials, such as steel, aluminum, and titanium, and rising fuel prices have resulted in larger and more widespread fuel surcharges among providers of transportation services.

Upward wage pressures generally eased further, with contacts noting only slight increases in overall labor costs. The reduction in wage pressures was widespread but was particularly pronounced in sectors that have seen the largest drops in labor demand, such as construction, finance, real estate, and retail. However, demand and wage growth remained strong for selected groups of skilled workers, notably those with skills related to advanced technologies.

Retail Trade and Services

Retail sales were weak on net, although a few respondents pointed to a slight upward blip relative to the previous survey period that reportedly was fueled by federal tax rebates. Sales remained at low levels for department stores and many smaller retail outlets, causing inventories to rise. Discount chains continued to outperform conventional department stores, generally registering modest sales gains. As in other recent survey periods, respondents pointed to increases in food and energy prices as a restraining factor on sales of other products. Sales of furniture and household appliances remained exceptionally sluggish, and unit sales of gasoline fell further. Demand remained very weak for new and used automobiles, particularly larger, fuel inefficient models; dealers have grown reluctant to accept trucks and SUVs as trade-ins on purchases, due to a reported “collapse” in the wholesale market for these vehicles.

Demand growth for service providers slowed further. While growth continued at a moderate pace for providers of health-care services, demand remained soft for providers of advertising, professional, and legal services. For providers of real estate services such as title insurance, conditions were described as “grim” and employment reductions continued. Tourist activity was flat to down in general, with noticeable declines reported for Hawaii, and contacts expect further weakening over the balance of 2008. Airlines struggled with reduced travel demand and higher fuel costs, and contacts noted plans for further cutbacks in flights.

Manufacturing

District manufacturing activity was mixed across sectors but appeared to expand on net during the survey period of June through early July. New orders have slowed for makers of commercial aircraft and parts, but production activity remained at high levels due to extensive order backlogs. Reports from semiconductor manufacturers indicated moderate growth in

revenues and high rates of capacity utilization. Manufacturers of heavy equipment reported solid demand and favorable profit margins, but makers of wood products continued to scale back output and employment. Production activity at petroleum refineries was reported to be near its five-year low, and gasoline inventories were at average levels. Food manufacturers continued to operate at or near peak capacity in response to continued robust demand, although high commodity and fuel prices reportedly ate into their profits.

Agriculture and Resource-related Industries

Demand remained robust for agricultural items and natural resources. Sales grew at a brisk pace for a variety of crops and livestock products, due in part to strong export demand. However, producers remained challenged by high prices for fuel and other inputs, and in parts of California extensive wildfires reportedly undermined growing conditions. High demand for various minerals and petroleum products prompted further expansion of extraction activity and capacity, including reutilization of previously dormant oil wells.

Real Estate and Construction

Activity in District housing markets remained stuck at very low levels during the survey period, while demand for nonresidential real estate continued to ease. Demand for new and existing homes remained exceptionally weak, fueling further price declines, especially in parts of California, Arizona, and Nevada that also have seen sharp increases in home foreclosures. Some reports indicated that builders are using a variety of incentives, such as covering buyers' closing costs, to whittle away at their unsold inventories. Conditions weakened further on the nonresidential side, with contacts noting a steep reduction in the total value of commercial construction permits in San Diego and an ongoing reduction in rental demand for commercial real estate in San Francisco.

Financial Institutions

District banking contacts reported that loan demand fell slightly on net relative to the previous survey period. Reports on commercial and industrial lending were mixed, with some contacts reporting a noticeable pullback in demand and others reporting steady conditions, suggesting slight easing overall. Demand for residential mortgages was reported to be very weak, and lending standards remained quite restrictive for residential mortgages and construction loans. Credit quality deteriorated a bit further, mainly for real estate and construction loans, with community banks feeling the greatest impact.