Summary of Commentary on ____________________

Current Economic Conditions

By Federal Reserve District

October 2008
SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

October 2008
# TABLE OF CONTENTS

Summary ................................................................. i

First District - Boston ................................................... I-1

Second District - New York ............................................. II-1

Third District - Philadelphia ......................................... III-1

Fourth District - Cleveland ........................................... IV-1

Fifth District - Richmond ............................................... V-1

Sixth District - Atlanta ............................................... VI-1

Seventh District - Chicago .......................................... VII-1

Eighth District - St. Louis ............................................ VIII-1

Ninth District - Minneapolis .......................................... IX-1

Tenth District - Kansas City ........................................... X-1

Eleventh District - Dallas ........................................... XI-1

Twelfth District - San Francisco .................................... XII-1
SUMMARY*  

Reports indicated that economic activity weakened in September across all twelve Federal Reserve Districts. Several Districts also noted that their contacts had become more pessimistic about the economic outlook.

Consumer spending decreased in most Districts, with declines reported in retailing, auto sales and tourism. Nearly all Districts commenting on nonfinancial service industries noted reduced activity. Manufacturing slowed in most Districts. Residential real estate markets remained weak, and commercial real estate activity slowed in many Districts. Credit conditions were characterized as being tight across the twelve Districts, with several reporting reduced credit availability for both financial and nonfinancial institutions. District reports on agriculture and natural resources were mostly positive, although adverse weather associated with hurricanes Ike and Gustav negatively affected the South and the Midwest.

Inflationary pressures moderated a bit in September. While several Districts noted continuing pass-through of earlier price increases for metals, food and energy, most indicated that cost pressures had eased. Labor market conditions weakened in most Districts, and wage pressures remained limited. Several Districts reported lower capital spending or reductions in capital spending plans due to the high level of uncertainty about the economic outlook or concerns over the availability of credit.

**Consumer Spending and Tourism.** Consumer spending was softer in nearly all Districts. Retail sales were reported to have weakened or declined in Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, and Kansas City; Dallas and San Francisco cited weak or sluggish sales; and Boston and New York indicated that sales were mixed and moderately below plan sales, respectively. Several Districts noted a reduction in discretionary spending by consumers and lower sales on big-ticket items. Several also reported increased activity at discount stores as consumers became more price conscious and shifted purchases toward less-expensive brands. Retailers cited these recent sales trends and concerns about credit availability as reasons for a weaker

* Prepared at the Federal Reserve Bank of Chicago and based on information collected on or before October 6, 2008. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.
economic outlook, including a slow holiday season. Most Districts reporting on light vehicle sales saw declines, with several Districts pointing to reduced credit availability as a limiting factor for automobile sales. However, Kansas City, St. Louis, and Chicago noted that dealers offering incentive and discount programs had seen some positive effect on sales. Tourism was mixed or weaker for tourist destinations on the East and West coasts, while both Minneapolis and Atlanta indicated that increases in international travelers were helping to offset lower domestic travel.

**Business Spending.** Hiring and capital spending varied across Districts. Labor market conditions weakened in most Districts. Boston, Chicago and Richmond cited reductions in hiring or hiring plans. Atlanta, Minneapolis, Kansas City, San Francisco and Dallas all noted some weakening in employment. However, the demand for skilled labor remained strong in several Districts, and Kansas City noted market tightness for minimum-wage jobs in leisure and hospitality. Several Districts reported that capital spending decisions were being influenced by economic uncertainty. New York, Chicago, Dallas, and San Francisco noted weaker capital spending. Boston reported capital spending was mixed as firms were cautious about spending resources. Cleveland reported capital spending remained on plan but intentions to increase outlays have declined. Philadelphia indicated concerns over restrictions in access to credit were limiting future capital expenditures for some manufacturers. In contrast, Kansas City and Chicago reported that capital spending for producers of heavy machinery continued to be strong.

**Nonfinancial Services.** Nonfinancial service industries experienced weaker activity in most Districts. Several Districts reported that activity in real-estate and related industries such as legal and title services was weak. New York cited widespread deterioration in business conditions. Boston reported consulting firms were experiencing reduced demand for their services from a range of clients. Cleveland, St. Louis, and Dallas noted slower activity in the transportation industry; however, Dallas’ slowdown was due mostly to temporary disruptions caused by hurricane Ike. Trucking contacts in Atlanta indicated declines in retail, automotive, and construction-related shipments, but increases in energy and farm products. Minneapolis reported continued strength in professional business services, while demand for professional business services was
down in San Francisco and Philadelphia. Demand for healthcare-related services was strong in Boston, Richmond, and Chicago, but weaker in St. Louis and San Francisco. Staffing firms reported lower demand for their services in Richmond, Philadelphia, and Chicago, but noted steady demand in Dallas.

**Manufacturing.** Manufacturing activity moved lower in most Districts, and contacts expressed heightened concern about the economic outlook. Several Districts noted that credit conditions were contributing to a high level of uncertainty on the part of contacts. Declines in manufacturing activity of varying degrees were reported in Boston, New York, Cleveland, Richmond, Chicago, St. Louis, Kansas City, San Francisco, and Dallas. Atlanta reported that production remained at a low level, while Minneapolis described conditions as mixed and Philadelphia noted a slight increase in activity. Metals-related industries, including the domestic steel industry, reported slower activity, although overall levels of production were still high in several Districts. Producers of housing-related items, building materials and construction equipment continued to experience low levels of demand across the twelve Districts. Activity in the automotive industry also continued to decline. Kansas City, Richmond, Philadelphia and Chicago reported continued strength in exports. However, Atlanta indicated a decline in export orders, reversing a trend of the past several months. Energy-related manufacturers and heavy equipment manufacturers with ties to energy or agriculture continued to do well in most Districts. Dallas and Atlanta reported that hurricanes Ike and Gustav disrupted oil production and refining, restricting the supply of petroleum and related products and leading to gasoline shortages in the Southeast and along the East coast.

**Real Estate and Construction.** Residential real estate and construction activity weakened or remained low in all Districts. Housing activity was reported to have moved lower in Boston, New York, Philadelphia, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco. While still slow, residential markets showed some signs of stabilizing in Cleveland, Atlanta, and Kansas City. Several Districts noted continuing downward price pressures and an increasing supply of homes for sale due to rising foreclosures. However, the inventory of unsold homes was reported to have declined in areas of the Boston and Atlanta Districts as well as in Philadelphia and Cleveland. Tighter credit conditions were cited as a limiting factor for demand in several Districts. Most Districts
reported commercial real estate and construction activity had slowed, with New York, San Francisco and Dallas noting the sharpest declines. In contrast, Cleveland and St. Louis indicated steady activity. Increases in vacancy rates or sublease space were noted in Chicago, Boston, New York, Atlanta, and San Francisco. Several Districts reported project delays and cancellations due to tighter credit conditions and increased economic uncertainty.

**Banking and Finance.** Credit conditions tightened in all the Districts that reported on them. Bank lending was described as either stable or lower for both consumers and businesses. Cleveland, Kansas City, and San Francisco noted that loan quality had deteriorated. Credit standards were tightened, particularly for commercial and residential real estate loans, in several Districts. Several also indicated that lenders in their District had become more highly cautious and more conservative. Richmond noted increased scrutiny of loan applications by banks and higher collateral requirements on commercial lending, and Cleveland and New York cited increases in loan pricing. Some Districts also mentioned customers taking steps to ensure that existing deposits are covered by insurance and noted deposit withdrawals after reports of bank closings during September. Liquidity problems in inter-bank markets along with a higher cost of funds were reported in several Districts. As a result, Chicago reported that banks were increasingly utilizing alternative sources of funds like the discount window and the brokered CD market; and Kansas City noted that banks had become more cautious in their liquidity management. Several Districts cited reports from businesses of difficulties in obtaining credit.

**Agriculture and Natural Resources.** Agricultural conditions remained favorable in most of the Districts reporting on them. Corn and soybean harvests were somewhat behind schedule in Chicago, St. Louis, Minneapolis, and Kansas City. Heavier precipitation slowed the harvests in some Districts, but aided agriculture in Atlanta, Chicago, St. Louis, and Dallas. Drought continued to be a problem in parts of the Atlanta District, and hurricanes damaged agriculture in parts of the Dallas District. Yield projections slipped since the summer, but were still expected to be near historical averages. Livestock producers faced tighter margins due to high feed costs and problems with feed availability in some Districts. Most agricultural product prices fell in
September. Exports continued to boost agricultural demand, while domestic demand lagged for some commodities. Conditions for the energy and mining sectors were positive, except for temporary damage to infrastructure from the recent hurricanes. Disruptions to offshore oil drilling in Dallas were not as extensive as they were after other recent major hurricanes. Drilling in the U.S. increased, especially for natural gas. Coal prices were stable, while oil and natural gas prices declined. Even so, energy operations looked to expand in Cleveland, Minneapolis, Kansas City, Dallas, and San Francisco. In addition, Minneapolis reported new mining activity.

**Prices and Wages.** Most Districts reported that cost pressures on prices had eased, although a number of Districts noted that the costs of energy, raw materials, food, and transportation remain elevated and margins were tight. Manufacturers in New York said that they plan selling price increases; but, with activity weakening, fewer other businesses anticipate price increases. Dallas noted that businesses facing softer demand plan to pass cost reductions on to customers, and Cleveland cited a decline in fuel surcharges as gasoline prices fell. However, respondents in Chicago and Dallas also reported that they continued efforts to pass-through earlier cost increases. Philadelphia, Dallas, and San Francisco noted increased discounting by retailers; Richmond reported that retail prices were rising less quickly; and Kansas City reported only a slight rise in retail prices. On the other hand, retailers in Chicago and Kansas City expect to raise prices further in coming months, and some in San Francisco also anticipate that the cost increases in train will lead to higher retail prices later this year and in 2009. Wage pressures across the twelve Districts remained limited outside of skilled labor positions that continue to experience high demand, such as the energy industry in Cleveland, Dallas, and Kansas City.
FIRST DISTRICT – BOSTON

First District contacts indicate that the pace of activity softened in the third quarter, and in some cases deteriorated sharply in September. Retail, manufacturing, and business services revenues decelerated or declined relative to year-earlier and quarter-earlier. Commercial real estate leasing was similar to the prior quarter but starting to weaken. Residential real estate markets continue to slump. Contacts indicate that credit tightness has brought about a halt to nonresidential construction and a scaling back of other investments. Selling price increases were less prevalent than in earlier reports. Most firms express heightened caution or concern about the outlook for the remaining months of 2008 and for 2009.

Retail. First District retailers cite mixed sales for August and September, but even the majority of those with positive results on a year-over-year basis report a softening. Retailers say that consumers are scaling back spending for the time being. One respondent observed a shift toward the sale of private label items, possibly indicating a more price-conscious consumer. Another noted that consumers are still willing to buy for the right deal.

Inventory levels continue to be tightly managed. Capital spending reports are mixed, with many retailers scaling back on spending but a few continuing their projects as planned; all contacted retailers cite caution on future spending. Several respondents have invoked a “soft hiring freeze,” while others have recently reduced or plan to reduce headcounts.

While several First District retail respondents have not been affected directly by a lack of credit, some report having difficulty financing equipment purchases or other projects, while others report being able to borrow funds only very short-term. Contacts who supply the housing industry note that contractors report having lines of credit pulled, and in some cases are hesitant to start projects because of funding fears. Additionally, a few retailers are facing escalated interest rates on the limited funding available.

Overall, First District retailers are concerned and cautious in their outlook. Many contacts express the view that improvement will not be seen for at least another six to twelve months.
Manufacturing and Related Services. Most manufacturers and related services providers headquartered in the First District say that third quarter sales trends were either in line with or somewhat weaker than earlier in the year. They express heightened concern about the current and upcoming quarters, especially in light of tight credit and what they perceive as deteriorating sentiment in the United States.

Retail- and restaurant-goods manufacturers report that demand is faltering. Producers of housing-related items say their sales remain subdued, with one indicating that business has “hit a brick wall.” A firm that makes residential and nonresidential building equipment reports a disappointing response to its September promotional event. Manufacturers of office equipment and a provider of business information note that some of their financial services customers have gone out of business, and that their remaining customers are reducing or postponing purchases. In sharp contrast with other segments, biopharmaceutical firms continue to experience strong double-digit revenue growth.

Many manufacturers continue to voice concerns about elevated materials, transportation, and fuel costs, although several now point to modest retrenchment for selected inputs. About one-third report that they raised selling prices in the third quarter or plan to do so in the fourth quarter. Several firms mention that weaker market conditions are likely to constrain their ability to raise prices in the coming months.

Close to one-half of the manufacturing and related services respondents report they are likely to cut domestic headcounts by the end of 2008. Another one-quarter say they will slow their rate of employment growth. Most contacts note that upward pressures on pay appear to be abating, although one manufacturer reached a wage increase settlement with its union that was higher than anticipated. Firms with largely salaried workforces say that labor turnover has decreased considerably, and that labor availability has improved as a result of layoffs at financial services and small biotech companies.

About one-half of the contacts say they have decided to reduce their capital spending in 2009. Most firms indicate that their operations have not been directly affected by a lack of credit. However, many point to examples of other, mostly smaller firms that have had difficulties, or they express concern about potential future vulnerabilities. For example, one respondent notes that he is tracking cash flow more closely than ever before; another mentions that his company would not be able to count
on its foreign parent as a source of capital if conditions deteriorate more broadly; and a third has new doubts about the availability of bank financing for a pending acquisition. Although some manufacturers cite reasons for expecting their own firm to be in a relatively stronger position in 2009 than the sector as a whole, almost all respondents report that they are bracing for a tough U.S. economic environment next year.

**Selected Business Services.** The majority of First District selected business services contacts—most of whom are consulting firms this time—report weaker demand. Demand from the airline, pharmaceutical, telecommunications, retail, and construction industries is said to have slowed significantly. However, demand for consulting services from the healthcare sector continues to be strong, notwithstanding overall economic conditions. Looking ahead, half of business services respondents were optimistic—when contacted in mid-September—about business growth in the fourth quarter; the other half expected flat demand for their services. One advertising firm anticipated a double-digit year-over-year decrease in demand in 2008. New England consulting firms were expecting to grow next year but were concerned about how economic pressures would affect their clients’ discretionary spending.

Most business services contacts are not increasing prices, although consulting firms feel upward pressure in compensation costs, especially for specialized researchers and consultants. Headcounts are mostly stable or down among contacted firms. Looking forward as of mid-September, the majority of respondents planned either to increase headcounts slightly or keep them stable next year, but one firm expected to continue its significant downsizing.

**Commercial Real Estate.** All commercial real estate contacts report further credit tightening. They indicate that even the most creditworthy borrowers have been unable to obtain funding for profitable properties. Respondents also report that construction loans are non-existent and construction activity has ground to a near halt. A mutual bank has capped loan size in order to conserve capital, and is restricting funding to refinancing and acquisitions of properties with reliable income streams by borrowers who put in significant equity. A contact at an asset management firm reports that the commercial real estate sales and development market is non-existent and not coming back any time soon, until the credit crisis can be resolved.
Leasing market conditions in the major urban centers of New England remain relatively stable, but the mood is one of extreme caution and nervousness. Reports from the Boston, Providence, and Hartford office markets all indicate that tenants are delaying lease renewals to the extent possible. Landlords are looking to cut deals to secure tenants and minimize losses. While some landowners continue to offer building improvements in lieu of rent discounts to lure tenants, contacts now say that some can no longer borrow enough money to take on such projects. Therefore, contacts predict that pressure on rents will become more severe as landlords’ options diminish. Office absorption in Greater Boston was negative in the latest quarter, and vacancy ticked up “a notch.” A Hartford contact expects the supply of subleases to rise in the coming quarter. A southern Maine contact sees tenants downsizing. Absorption also appeared negative in Rhode Island, albeit more so in the suburbs than downtown.

The outlook was characterized as either “grim” or “extremely uncertain.” Most contacts expect commercial property markets to get worse before they get better.

Residential Real Estate. The residential real estate sector continues to struggle across New England, and contacts venturing a prediction said they anticipate no noteworthy improvements in the next year. August home sales fell 14 percent and 17 percent year-over-year in Massachusetts and Rhode Island, respectively, and over 30 percent in Connecticut and Maine. This was the largest decrease in Connecticut since 1989. Condo sales dropped 19 percent year-over-year in August in Massachusetts, over 30 percent in Rhode Island and Connecticut, but only 4 percent in New Hampshire. Contacts report a few cases of realtors trying to convince homebuyers not to back out of nearly completed deals.

In August, median home prices decreased 8 or 9 percent year-over-year in Massachusetts, Connecticut, and Maine, and 15 percent in Rhode Island. Inventories in Massachusetts are said to have come down to a more balanced level. Median condo prices remained flat year-over-year in Massachusetts, while falling 4 percent and 7 percent in Rhode Island and Connecticut, respectively.
SECOND DISTRICT – NEW YORK

The Second District’s economy has weakened since the last report. Manufacturers report that business activity declined moderately in September and early October, while non-manufacturing firms report more widespread softening in activity and anticipate cutbacks in employment levels. Both manufacturers and other firms report some letup in price pressures, though a sizable proportion of manufacturers plan to increase selling prices in the months ahead.

Consumer confidence has recovered somewhat since the last report, though the latest survey data were collected prior to much of the recent financial sector turmoil. Still, retail sales were moderately below plan in September, though inventories were said to be at or near desired levels. There has also been some pullback in tourism activity in New York City. Most residential and commercial real estate markets have continued to weaken since the last report; real estate contacts note that it is too early to gauge any potential fallout from the recent financial turmoil. Finally, bankers report slowing demand for home mortgages and consumer loans, tightening in credit standards, and higher delinquency rates on loans—especially home mortgages.

**Consumer Spending.** Retail sales were said to be moderately below plan in October, with same-store sales running 1 to 5 percent below a year earlier. New York City continued to out-perform the rest of the region in terms of sales gains. Inventories are reported to be at or near desired levels generally, and prices are reported to be steady to up moderately. Consumer surveys indicate some recovery in sentiment: the Conference Board’s survey of Middle Atlantic residents showed confidence rising modestly in August and September after slumping to its lowest level on record in July; similarly, Siena College’s survey of New York State residents shows some rebound in confidence in the third quarter. In both cases, though, most of the surveys were completed prior to the mid-September financial turmoil.

Tourism activity in New York City has shown some signs of softening since the last report. After climbing above 90 percent in August, Manhattan’s hotel occupancy rate retreated noticeably in September, based on preliminary figures, slipping below comparable 2007 levels. At the same time, room rates rose less than the seasonal norm
and were up 6 percent from a year earlier, compared with a gain of 8 percent in August and 9 percent in July. Moreover, a number of major hotels indicate that advance bookings—mostly for October and November—have weakened noticeably. Separately, Broadway theaters report that both attendance and total revenues were up roughly 6 percent from a year earlier in September, which is a slightly larger increase than reported for August.

**Construction and Real Estate.** Housing markets in the District have generally weakened since the last report. Virtually all contacts emphasize that there has been little activity in recent weeks and that it is too early to gauge the impact of the recent financial crisis on the market; there were frequent mentions of both buyers and sellers being in a “wait and see” mode. A contact monitoring New Jersey’s residential construction sector reports that both new home sales and new construction activity were exceptionally weak in August and that prices have continued to decline, with builders increasingly offering steep discounts. The inventory of homes on the market remains fairly high, though two contacts note that many sellers are discretionary and would take their homes off the market before reducing the asking price substantially. A number of contacts in northern New Jersey estimate that single-family home prices are down 20 to 25 percent from their peak levels; one contact notes somewhat steeper declines in prices for townhouses and condos. Housing markets on New Jersey’s Gold Coast (near Manhattan), where both multi-family development and apartment sales and prices had been showing some resilience, are reported to have weakened recently.

New York City’s co-op and condo market also showed signs of softening in the third quarter: prices were still reported to be up slightly from a year earlier, but lower than in the second quarter. Moreover, sales activity weakened noticeably, and the inventory of unsold units, though still fairly low by historical standards, was up an estimated 35 percent from a year ago. Manhattan’s rental market was steady to somewhat softer in September: on average, rents were running 4 to 5 percent lower in September than a year earlier, while the inventories of available rental units and the vacancy rate have been relatively stable.

Commercial real estate markets in the New York City area have also weakened noticeably. In Manhattan, leading brokerage firms report that office vacancy rates
climbed about ½ point in September and were up for the quarter as a whole. Asking rents retreated but were up modestly from comparable 2007 levels; however, an industry expert notes that asking rents are overstating actual market rents, due to both the mix of available space becoming more upscale—with financial firms pulling back—and landlords becoming increasingly willing to negotiate and offering more concessions. Suburban office markets also showed some softening during the third quarter, though to a lesser extent than in Manhattan; asking rents have generally remained stable outside New York City. Finally, an expert on Manhattan’s hospitality industry notes that hotel development has slowed: developers that have yet to begin physical construction are largely unable to get financing to go forward and most such projects are being curtailed. Currently, no new developments are being started.

**Other Business Activity.** New York State manufacturers report that business activity weakened moderately in September and early October. Contacts report some decline in new orders but steady employment levels. Manufacturers report some letup in price pressures, though close to half of those contacted plan to increase their selling prices in the months ahead. While a large number of manufacturers report tightening credit conditions and increased borrowing costs, more contacts say that their own borrowing needs have diminished than increased. General weakness is also reflected in goods distribution: a trucking-industry contact reports that this pre-holiday season is shaping up to be the weakest in a long time. Credit availability is not reported to be a major issue, and truckers are getting some relief from declining diesel prices, with few, thus far, scaling back fuel surcharges. However, these positive industry factors are more than being offset by the general falloff in business. More generally, non-manufacturing firms in the District report widespread deterioration in general business conditions and declining business activity; a growing proportion also indicate recent job reductions, and a majority now expect job cutbacks in the months ahead; these firms’ capital spending plans have also weakened fairly dramatically. Non-manufacturing firms report continued price pressures, but a declining proportion plan to raise their selling prices in the months ahead. In contrast with manufacturers, contacts at non-manufacturing firms indicate somewhat increased borrowing needs, on balance.
Financial Developments. Small to medium-sized banks in the District report fairly widespread weakening in demand for consumer loans and residential mortgages, but no change in demand for commercial mortgages and commercial and industrial loans. For all loan categories, respondents indicate a tightening of credit standards—particularly in the residential mortgage category. Respondents state an increase in the spreads of loan rates over cost of funds in all loan categories except consumer loans, where they report no change. Finally, bankers report no change in delinquency rates for commercial and industrial loans but increased delinquencies for all other loan categories—most noticeably in the residential mortgage category, where nearly a third of bankers indicate higher rates and just 6 percent report lower rates.
Business conditions in most sectors in the Third District softened from August to September. Manufacturers, on balance, reported a very slight increase in new orders but a steady rate of shipments. Retailers generally posted month-to-month and year-to-year declines in sales, as did motor vehicle dealers. Bank loan volume has been nearly flat in recent weeks. Residential real estate sales and construction activity continued to fall. Commercial real estate leasing and construction activity have slowed. Services sector firms generally indicated a slowing pace of business. Reports of increases in input costs and output prices were somewhat less widespread among business contacts in September than they were in August.

The outlook among Third District businesses is generally not positive. Although manufacturers surveyed in early September forecast increases in business activity during the next six months, contacts in other sectors do not expect improvement. Retailers expect a difficult holiday shopping period. Auto dealers see no signs that sales will pick up soon. Bankers anticipate slow loan growth and weakening credit quality into next year. Residential real estate agents and home builders expect sales to continue to remain slow until the latter half of 2009. Contacts in commercial real estate expect leasing and construction activity to decline during the next several quarters.

**Manufacturing.** Third District manufacturers polled in early September reported a very slight increase in new orders and a near steady rate of shipments, on balance, compared with August. Around one-third of the manufacturers surveyed noted increases in those measures and just over one-fourth reported decreases. The slight positive balance of results among firms polled in September was a marked improvement over the negative balance in reports received from area manufacturers earlier this year. Firms with export business continued to see growth in demand for their products, and some firms noted that previously off-shored work “is returning from Europe and China.” In contrast, firms producing building materials and construction equipment continued to see declining demand.

The outlook among Third District manufacturers surveyed for this report is positive, on balance. Nearly one-half of the manufacturers contacted in early September
expect new orders and shipments to rise during the next six months, and about one-tenth expect declines — around the same ratio of positive to negative opinion as reported in August. Area manufacturers have boosted capital spending plans slightly since last month, on balance, although some respondents noted that “cash flow issues” and “restrictive bank lending practices” are limiting expansion in activity.

**Retail.** Most of the retailers contacted for this report indicated the customer traffic and sales fell in September compared with the previous month and year. Some discount stores have experienced increased traffic and sales, although even in this category many stores have had declining sales. Retailers selling luxury items and higher-price merchandise have also posted recent sales declines, a change from the relatively stable or rising sales they had earlier this year. Other types of consumer spending have fallen in the District. Contacts in the lodging, travel, and restaurant industries generally reported significant declines in business since the last Beige Book. The outlook among Third District retailers is not positive. As one retailer phrased it, “The holidays are going to be ugly.”

Auto dealers in the region reported a continuing downward sales trend in September. Sales fell compared with the previous month and year for dealers selling both domestic and foreign makes. Inventories were above desired levels but have not been growing, as dealers have been taking delivery of fewer vehicles.

**Finance.** Total outstanding loan volume at Third District banks has been nearly flat in recent weeks, according to bankers contacted for this report. There has been a slight gain in real estate loans, but personal and business lending has been level to down for many banks. Most of the banks contacted for this report said that business loan demand was softening. Although most of the surveyed banks were “actively looking for credits” among potential business borrowers, recent consolidation affecting banks in the region has led to some interruption of loan marketing efforts at those institutions. Contacts in the region’s financial services sector indicated that deposit growth has generally been holding up, although some banks noted a temporary increase in withdrawals by depositors following news reports of bank closings elsewhere in the country. Bankers indicated that nondeposit sources of funds have become more costly and less readily available. Contacts in residential real estate financing indicated they have
had no difficulty funding residential mortgages with good credit quality and low leverage ratios, but contacts in commercial real estate financing said the availability of funds has declined sharply. Looking ahead, bankers expect loan growth to remain slow, and they expect some deterioration in credit quality in the current quarter that will continue into next year.

**Real Estate and Construction.** Residential real estate activity in the Third District continued to weaken in September. Residential real estate agents reported that sales of existing homes continued on a downward trend compared with a year ago, and home builders continued to see falling sales of new homes. However, builders have been able to reduce inventories by cutting production and boosting incentives to promote sales of completed houses. One real estate agent said that most recent sales have been “nonelective,” necessitated by changes in sellers’ or buyers’ personal circumstances. Contacts in residential real estate expect the decline in sales and construction to level off sometime during the winter, but they do not expect activity to pick up until late next year, and they expect the recovery to be modest.

Commercial real estate firms indicated that construction, leasing, and purchase activity have been trending down since the summer. Rents have been nearly steady, although concessions have increased somewhat. Commercial real estate contacts reported that the number of firms putting off plans to increase space has risen, although they noted that in most markets in the region “the supply-demand balance is intact” and is expected to remain so unless firms in the region make large cuts in employment. However, many contacts expect commercial construction activity to decline significantly during the next several quarters.

**Services.** Service-sector firms generally reported easing in growth or declining levels of activity in September. Some business services firms indicated that their client firms were stepping up efforts to reduce costs by cutting back on their uses of outsourced services. Firms providing personnel services noted that their business has weakened as employment in the region has begun to decline. The outlook among area service firms has weakened since the last Beige Book. Some consulting and technology firms said they expected more demand for their services from companies looking for ways to streamline operations and reduce costs, but most business services firms expect that maintaining
current rates of activity or expanding their business during the next several quarters will be “much tougher than normal,” as one contact said.

**Prices.** Reports of increases in input costs and output prices have declined somewhat since the previous Beige Book. Firms in the region continued to note pressure on their profit margins from high energy and raw material costs. They also reported rising prices for petroleum-based products and metals. Retailers have stepped up discounting, and many are planning to promote low-cost items for gift-giving in the upcoming holiday season.
Overall economic activity in the Fourth District has weakened since mid-August. Factory output and steel shipments softened. Residential construction remains very slow, with no improvement expected through 2009. Most commercial builders told us that business has been stable. Sales by District retailers were characterized as flat to declining, while reports from auto dealers indicate that purchases of new cars have declined sharply. The commercial credit market tightened, and consumer lending was flat. Energy production was steady to increasing. And the market for freight transport services declined.

On net, reports show a slight drop in employment levels, with wage pressures limited to energy producers. Staffing firms saw a small increase in the number of job openings, primarily in health care and professional business services. Most manufacturers and construction firms reported that prices for raw materials either held steady or moderated slightly.

Manufacturing. Output at District factories was stable to lower during the past six weeks. Reports of declining production were attributed primarily to weakness in the auto and construction industries. On a year-over-year basis, a majority of our contacts said that production was slightly down. Manufacturers anticipate that production will be maintained at current levels or weaken during the upcoming months. Capacity utilization was at or below normal levels. Steel producers and service centers reported shipping volume was flat to down, which they attributed to a downturn in the auto and construction industries. The strongest end users for steel are energy and capital equipment producers. In general, our contacts believe market conditions for steel will change little or weaken slightly in the upcoming months. District auto production showed a significant increase in August, rebounding from seasonal plant closings in July for new model year retooling. In terms of year-over-year comparisons, District auto production fell sharply, with domestic makers reporting steeper declines.

Capital spending remains on plan; however, the share of respondents who anticipate increasing capital expenditures going into 2009 has declined since our last report. Half of our respondents who accessed credit markets told us that they
experienced tighter controls and higher interest rates. Most manufacturers commented that the prices they paid for raw materials had flattened out or declined. Moreover, significantly fewer respondents raised their product prices than reported earlier in the summer. Looking forward, a majority of our contacts expect inflationary pressures to remain steady or diminish. On net, employment levels decreased slightly, and wage pressures were contained. Manufacturers anticipate little hiring in the near future.

**Real Estate.** Residential builders reported that new home sales continue to be very slow. On a year-over-year basis, sales are steady to down. Looking forward, builders are not expecting any industry turnaround through 2009. Further, we heard several comments that banks are imposing significantly tighter credit standards on homebuilders and buyers. Little change in materials prices was noted, and list prices on homes are reported to have dropped slightly since our last report. Inventories of new unsold homes declined. Subcontractors are readily available at very competitive rates. General contractors and subcontractors reported reductions in staff levels and no wage pressures.

Most commercial contractors told us that business has been reasonably stable during the past six weeks, and they believe that it will remain so through 2009. Backlogs are relatively strong, and inquiries have been steady to increasing. Several contractors commented that credit is becoming more restrictive; nonetheless, financing is available. The rate of increase in the prices of building materials is moderating, though fuel surcharges remain high. Contract pricing outside of materials costs remains stable. Workforce levels were largely unchanged, and no wage pressure was reported.

**Consumer Spending.** In general, District retailers reported that August sales were flat to declining on a month-over-month basis across all industry segments. Looking forward, most respondents believe sales will remain relatively weak. Reports from auto dealers indicate that purchases of new cars have declined sharply over the past six weeks, while used car sales are flat to slightly down. Purchases of SUVs and trucks were characterized as poor. Dealers are very concerned about lower sales volume in the coming weeks. Retailers report that vendor prices have remained stable, with the exception of increases for paper and food products. In response, retail sellers of paper products passed through increases to their customers. Capital spending remains on target,
with few revisions planned in the upcoming months. For the most part, staffing levels at retail stores have not changed; however, we heard many reports of auto dealers cutting back on their sales and support staffs. Wages remain stable in the retail sector.

**Banking.** Demand for business lending has been flat to down. Reports of increased demand were generally attributed to customers tapping existing lines of credit. Commercial loan pricing is increasing across the board. On the consumer side, loan demand, including home mortgages, is flat to slightly down, with interest rates holding steady. In general, regional banks are continuing to constrict the availability of credit—especially to commercial borrowers, while community bankers do not foresee much further tightening of underwriting standards. Reports showed that delinquencies at community banks are flat to down, while regional banks are experiencing an upward trend especially for commercial and residential real estate loans, HELOCs, and credit cards. A majority of our contacts said that core deposits have been steady to increasing. However, some community bankers commented that they are losing depositors to large banks which are paying higher rates on CDs. The spread between lending and deposit rates at community banks are steady or have widened a few basis points. At the same time, spreads at regional banks are under pressure due to higher rates paid on time deposits. Staffing levels were stable, and no wage pressure was reported.

**Energy.** Energy production has been steady to increasing during the past six weeks, with most of our contacts expecting production levels for coal, natural gas, and oil to expand during the upcoming months. Reports indicate that the prices received for oil and natural gas fell significantly, while coal prices were stable. Materials and equipment costs remain at elevated levels, especially for petroleum-based inputs and steel. Capital expenditures were on plan, with little change expected during the next few months. We heard several reports of tightening credit markets; however, only one of our respondents sees it as a serious issue at this time. There has been a slowing in hiring by most energy companies from the pace seen earlier in the year; however, a slight pick-up is expected in the near future. Wage pressures remain an issue due to competition for skilled labor.

**Transportation.** Freight transport service companies experienced an overall decline in shipping volume since our last report. Company officials told us that the auto, consumer products, and housing industries are primarily responsible for the drop-off.
Volumes are expected to flatten out, with little pick-up anticipated during the next several months. Several contacts commented that fuel prices have declined recently, and their declines are reflected in reduced fuel surcharges. Capital expenditures remain on target but are at low levels for most companies. Little change in capital spending is expected during the upcoming months. For the most part, hiring was limited to driver turnover, and any wage increases fell within industry norms.
FIFTH DISTRICT– RICHMOND

Overview. Business contacts indicated that, on balance, Fifth District economic activity weakened towards the end of August and through September. Retail sales and manufacturing activity slowed across most of the District while services firms expressed concerns about the future. One respondent noted reduced credit availability for local retailers. Although export volumes remained strong, activity at District ports cooled a bit as contacts noted some fall off in shipments. Residential real estate activity continued to be weak in most of the District as national economic and financial uncertainty lowered demand for new mortgage lending. Commercial lending also cooled as credit standards continued to tighten, and commercial leasing activity was sluggish, although vacancy rates changed little and rents were mostly stable. Meanwhile, hiring activity contracted across the board. Some input cost pressures remained for manufacturing firms, but overall wage and price pressures abated across District manufacturing and service-sector businesses.

Retail. Retail executives and store managers reported that sales slumped in recent weeks, particularly for big-ticket items. The store manager at a chain discount retail establishment in central North Carolina echoed other contacts when he told us gasoline shortages in his region were keeping many shoppers home during the week. An executive at a hardware chain in central Virginia told us that the contraction in sales at his stores had quickened in recent weeks. In addition, the manager of a department store in an upscale mall outside the Washington, D.C., beltway said that business was down dramatically—as much as 12 to 15 percent since our last report. In contrast, a large department store manager in central West Virginia said his store's sales growth was "holding up pretty well," although sales through his government contracts were down slightly. According to a retail spokesperson in central Virginia, local companies that have long-standing relationships with lenders cannot get lines of credit to purchase merchandise for next spring; small retailers are "just petrified." Furniture, appliance, and automobile dealers across the District reported declining sales. Retailers cut back on new
hires and wage growth slowed in the last four weeks. Retail prices grew somewhat less quickly since our last report.

**Services.** A contact at a community services organization in central North Carolina expressed concern about the effects of recent financial events spreading to both his and other businesses in the region. Executives at financial services businesses in central Virginia, northern West Virginia, and Baltimore, Md., said their clients were nervous, but most contacts said they were not seeing outright panic. One financial services contact described it as, "Everybody's on the edge of their seats." At healthcare organizations, contacts saw little change in customer demand in recent weeks, but were concerned that continued upheaval in financial markets would lead to increases in unpaid bills or a reduction in elective surgeries. A business-campus executive said his plans for expansion have been "shelved." Services firms trimmed payrolls and wages continued to grow about on pace with our last report. Price growth was contained at services businesses.

**Manufacturing.** District manufacturers reported that activity contracted further with broad weakness across shipments, new orders, and employment. A manufacturer at a North Carolina textile plant reported that business at his firm was very slow, noting that his patrons were pessimistic and their customers (retailers) were extremely cautious. Likewise, a manufacturer of housing goods in North Carolina said that business had slowed even further as his customers had trimmed inventories considerably. A furniture maker in North Carolina told us that he had experienced the worst business conditions for residential furniture in 40 years and that the outlook for commercial office furniture was very bleak because of the industry’s reliance on financial institutions as clients. Cost pressures remained but were less widespread this month. A producer of housing products in North Carolina reported that he had not incurred additional increases in raw materials prices over the past month. He pointed out, however, that his company was only able to pass on minimal price increases to customers and therefore had not passed on the 10-15 percent jump in input prices of recent months.

Activity at Fifth District ports cooled somewhat in September. Retail imports for the upcoming holiday season were below year-ago-levels at the District’s largest container port, and other imports were reported to be “down across the board.” Export
volumes remained strong but contacts noted some fall off in shipments, especially for lower end commodities – such as grains and scrap materials – due in part to elevated shipping surcharges.

**Finance.** Residential lending activity remained soft across most of the Fifth District in recent weeks. Contacts in Richmond, Va., Charlotte, N.C., and Hilton Head, S.C., reported steady but subdued levels of new mortgage activity as home “purchase demand stabilized at a very low level,” while lenders in Charlottesville, Va., and Greenville, S.C., noted further weakness in demand for mortgage initiations. Contacts mentioned that a brief flurry of refinancing activity occurred in Virginia and the Carolinas, though activity quickly reverted back to a tepid pace after a sudden rise in interest rates. Credit standards tightened a bit further as institutions followed new FHA guidelines. Credit quality varied; some lenders reported higher quality applicants while others noted lower quality as “realtors are bringing anybody in.”

In commercial lending, recent activity was stable to weaker. Contacts cited a general “uneasiness” that contributed to “less aggressive lending” practices. Credit standards continued to tighten – some contacts noted that informal guidelines were becoming policy, more due diligence was being exercised for new borrowers, and collateral requirements had increased. Reports on credit quality were mixed. One contact noted improved borrower quality resulting from more intense loan scrutiny, while others observed increased stress on the balance sheets of their business borrowers. Several lenders reported that credit quality was holding steady, but they were “watching it like a hawk.”

**Real Estate.** Real estate contacts continued to report weak activity in housing markets across the District. Most contacts reported very slow home sales with a few citing the national financial and economic situation as the reason. A Richmond, Va., Realtor told us that his housing market had become “extremely” slow with only a few buyers due to the uncertainty of the economy. The Realtor also noted that foreclosures were on the rise. Likewise, an agent in Greensboro, N.C., said that his housing market had been “hit really hard” due, in part, to the deteriorating financial condition of a large insurance company in his city and a large local bank. He told us that sales were down “tremendously” in all price ranges. In contrast, an agent in the Washington, D.C., area
reported “steady” sales, with good activity in the middle-priced condominiums market. House prices slipped a bit in several areas of the District.

Turning to commercial real estate, leasing activity was sluggish across most of the Fifth District, especially in the Washington, D.C., metro area. Agents in Maryland, Virginia, North Carolina and South Carolina reported generally soft markets across all property types, but a contact in West Virginia noted pockets of healthy activity. A Washington, D.C., agent specializing in Class B office space saw firmer demand – partly from tenants moving down from Class A space. Vacancy rates were mostly unchanged, although reports indicated an uptick in vacancy for smaller blocks of office and retail space in the D.C. market as some tenants moved to home offices. Rents were stable across much of the District, but contacts in Washington, D.C., noted some downward pressure. Sales activity was slow to “non-existent” in Roanoke, Va., Raleigh, N.C., Charlotte, N.C., and Columbia S.C., while commercial property prices were steady. In recent weeks, new construction was limited to smaller specialty-use properties, and contacts reported hesitancy in their markets as “people are putting the brakes on” deals because “there is so much unknown right now.”

Tourism. Reports on tourist activity varied since our last survey. Along the coast, contacts in the Outer Banks of N.C., Virginia Beach, Va., and Myrtle Beach, S.C., told us that bookings were weaker compared to our last report and to a year ago. Contacts attributed the softness to Tropical Storm Hannah, which reduced bookings in the first full weekend of September, and then to the “Ike Spike” (gas price hike after Hurricane Ike). They also indicated that economic uncertainties this month had taken a toll on tourism. Looking ahead, a hotelier in Virginia Beach, Va., described expectations for the next six months as, “not pretty.” On a brighter note, contacts at mountain resorts in Virginia and West Virginia reported stronger bookings than a year ago, which they credited to group reservations, warm and early fall weather, and regional attractions.

Temporary Employment. Fifth District temporary employment agents reported lackluster demand for temporary workers in recent weeks. The low demand for workers came from agencies’ inability to recruit clients as well as the uncertainty and slowdown of the economy. A Raleigh, N.C., agent anticipated a small increase in demand for workers in the coming weeks due to the desire of many companies to increase their
headcount before the end of this calendar year. Middle management, IT, administrative, 
customer service, sales, and certain specialty skills were those most highly sought from 
industries such as professional services, pharmaceuticals, and retail.

Agriculture. Recent weather conditions allowed Fifth District farmers to make 
steady progress in small grain preparation and harvesting activities. In Virginia, the corn 
harvest progressed quicker than expected due to the generally dryer weather and lower 
than average yields. The corn harvest in North Carolina was going strong throughout the 
state, while winding down in South Carolina. In addition, the apple harvest was seventy 
percent complete in Maryland, and farmers in Virginia and West Virginia were preparing 
for the soybean harvest which was in fair to good condition. Hay stocks in Virginia were 
reported to be short and cattlemen were considering other grazing and feeding options. 
In some cases, cattlemen were culling their herds in order to compensate for the shortage 
of feed. In contrast, cattle conditions in West Virginia were rated as mostly good with 
pasture conditions reported to be in fairly good shape.
VI-1

SIXTH DISTRICT – ATLANTA

**Summary.** Sixth District contacts reported that economic activity weakened further in September. Banking and business contacts indicated that credit conditions tightened, and businesses reported that their ability to obtain financing had become increasingly difficult. Labor market conditions weakened further in most sectors, and consumer spending slowed. Residential real estate contacts noted that sales remained at low levels and construction declined. The increase in the number of foreclosed properties was putting downward pressure on home prices in some District markets. Commercial contractors noted lower activity and an increase in project cancellations. Most manufacturing contacts reported reduced production levels. Tropical storms improved agricultural conditions in much of the District, but the energy infrastructure suffered damage that curtailed the supply of petroleum and related products to some markets. By most accounts, cost pressures on businesses eased over the month.

**Consumer Spending and Tourism.** Retail sales weakened across the District during September. Purchases of big-ticket items, including furniture, were especially sluggish. Auto sales declined, and several contacts reported that sales were lower than a year earlier. In general, the retail outlook for the upcoming holiday season was subdued.

Tourism activity remained mixed in the District. The region continued to attract international visitors, which helped offset weakness in domestic business and leisure travel. There were several reports of discounting by hotels and cruise lines.

**Real Estate and Construction.** Reports from homebuilders and Realtors indicated that new and existing home sales remained weak. However, several contacts noted that activity, although well-below year-earlier levels, was relatively stable in September relative to August. Reports on inventories varied across the District, while home prices continued to decline by most accounts. Contacts noted that bank-owned homes were putting significant downward pressure on home prices in some District markets. According to our contacts, the outlook for residential sales and construction activity over the next several months remained subdued, but further significant weakening is not expected.
Most District commercial contractors continued to note declines in activity. Projects were being postponed or cancelled because of funding constraints and weak economic conditions. Several contacts noted that the amount of sublease space available rose modestly. Overall, commercial contractors anticipated that development activity would slow further.

**Manufacturing and Transportation.** Most manufacturing contacts reported that production levels remained low and new orders were below year-earlier levels. Reports also indicated that the number of export orders declined in September, reversing the trend of recent months. Many contacts continued to report reductions in employment and hours. Trucking contacts reported lower shipments of retail, automotive, and construction-related goods, but noted gains in shipments of coal, minerals, farm products, and chemicals. Manufacturing contacts expect activity to remain close to or fall below current levels over the next six months.

**Banking and Finance.** Most banking contacts in the District reported that credit conditions were tightened and the volume of business and consumer lending has declined. Restricted access to consumer credit is said to be affecting sales of homes, autos, and other big-ticket items. Banks noted that loan-to-deposit interest spreads were widening and underwriting standards have become very conservative. Bank liquidity challenges were reported to remain a serious concern.

**Employment and Prices.** Business contacts reported that labor markets continued to weaken in September. Employment in most sectors declined across the region. Retail contacts indicated that holiday-related hiring is expected to be weaker than last year. Temporary employment agencies noted an increase in the number of applicants who had recently been laid off from other jobs. Short-term hurricane-related job losses were significant in southern Louisiana.

Business contacts noted that price pressures had eased for both raw materials and finished goods. However, elevated costs of fuel, food and utilities continued to strain household budgets.

**Agriculture and Natural Resources.** Tropical storms improved agricultural conditions in much of the District. However, extreme drought conditions remained in Georgia and Tennessee. Citrus growers reported concerns over weakening prices
because of higher orange juice inventories and weaker consumer demand. Poultry producers noted continued strong foreign demand. However, production growth was reported to have moderated as domestic consumption has slowed.

The Sixth District’s energy infrastructure, a major source of the country’s crude oil imports, production, and refining, was negatively affected by Hurricanes Gustav and Ike. Although long-term damage to energy infrastructure is expected to be modest, electricity outages and lengthy delays in returning to operations contributed to significant short-term declines in oil production and refining. This led to shortages of gasoline and petrochemicals in some areas of the District.
Summary. Economic activity in the Seventh District weakened in September, and contacts reported heightened concern about the economic outlook. Consumer spending declined and labor market conditions remained weak. Residential construction continued to decline and nonresidential construction to slow. Overall, manufacturing moved lower, although activity varied by sector. Credit conditions tightened further. Cost pressures from material and energy prices remained elevated, while wage pressures continued to be low. The crop harvest was off to a slow start, but yields generally appeared in line with historical averages.

Consumer spending. Consumer spending declined in September, as households continued to tighten their budgets and trade down to less expensive brands. Accordingly, discount stores saw small increases in sales, while retailers in areas such as home improvement and clothing experienced declines. Similarly, a contact in the fast-food industry reported slightly higher-than-expected demand. Light vehicle sales declined, although demand for more fuel efficient vehicles, especially among passenger cars, held up better. Several dealers cited higher sales due to General Motor’s end-of-month incentives; these incentives also resulted in some reduction in elevated light-truck inventories. Auto contacts also reported that consumers were concerned about the cost and availability of credit, and that this had resulted in a decline in credit sales.

Business spending. The pace of business spending slowed from the previous reporting period. Several contacts reported delaying or postponing hiring plans or capital spending projects given the high level of uncertainty surrounding the economic outlook. Others noted that they have been carefully monitoring expenditures and receivables, relying more on maintaining existing equipment than purchasing new capital and paying down debt instead of spending financial resources. However, this sentiment was not uniform—notably, capital expenditures by manufacturers of heavy machinery continued unabated. Labor market conditions in the District were little changed, and continued to be mixed by sector. The demand for skilled labor in manufacturing, healthcare, and some professional services remained strong, and a contact in agriculture noted that labor was more difficult to hire for this year’s harvest. In contrast, employment in the automotive
and financial services industries continued to decline, although some financial contacts reported that they were trying to recruit workers who had lost their jobs at other firms. Lastly, staffing firms reported a decline in demand for their services given hesitancy by clients to engage in longer-term contracts.

**Construction/real estate.** Construction activity remained sluggish in September. Residential construction continued its steady decline. Project delays and cancellations persisted and credit remained tight for new developments. Increases in foreclosures were cited by contacts as an impediment to sales of non-foreclosed homes and in reducing the inventory of new and existing unsold homes. Mortgage originations remained at low levels due to tight credit standards and a slight increase in mortgage rates in late September after a decline earlier in the month. However, contacts noted a slight increase in activity among first-time home buyers due in part to the tax credits included in the recent housing bill. Nonresidential development and construction continued to slow. Contacts cited modest improvement in infrastructure spending but ongoing weakness in retail and industrial construction. Furthermore, contacts noted an increase in vacancy rates for retail properties and a rise in office sublease space. Cancellations and delays of commercial projects were again reported as the availability and cost of financing continued to be of concern.

**Manufacturing.** Manufacturing activity in the District slowed in September. Activity weakened slightly in the domestic steel industry. Demand continued to be soft for medium- and heavy-trucks and for manufacturers with close ties to housing, such as construction equipment and materials and home appliances. Aviation manufacturing contacts noted a negative impact from the Boeing strike as well as some recent softening in demand. However, demand for heavy machinery used in sectors such as oil and gas extraction, mining, and agriculture remained strong. Manufacturers of pharmaceuticals and energy infrastructure and related products also reported strong activity. In addition, export-oriented industries continued to perform well. Exporters noted that demand had shifted from Europe to developing countries whose terms of trade with the U.S. remained favorable. Automakers reported further declines in sales in September, and contacts noted some pending plant closings in the District.
Banking/finance. Credit market conditions in the District tightened in September as liquidity was impaired by concern over increasing credit risk. Banks reported that access to funds in inter-bank and deposit markets had been limited in recent weeks, leading to increased utilization of alternative sources of funds including the discount window and the brokered CD market. Furthermore, banks reported increasing their cash holdings and shortening the maturity of their assets as a contingency against deposit withdrawals following reports of bank closings elsewhere in the country. This, in combination with ongoing de-leveraging was further reducing credit availability. Accordingly, some non-financial contacts expressed reservation over the future availability of bank credit lines. Other financial market participants reported that increases in volatility and credit risk were boosting borrowing spreads in short-term money markets and in the markets for longer-term debt, even for investment-grade companies. Liquidity was also poor in the secondary markets for commercial and residential mortgages. Several contacts reported increasing difficulty and higher costs of obtaining funds through the commercial paper market. Higher credit costs at the financing arms of automakers were making it more difficult for dealers to obtain credit to finance inventories.

Prices/costs. Despite recent declines in spot markets, contacts in various industries again cited elevated input costs from various metals, food, and energy. Several contacts mentioned higher utility costs and fuel surcharges. In contrast, the price of steel and scrap metal declined. However, a contact noted that the lengthy period of high steel prices had pressured many customers’ profit margins. More generally, pass-throughs of higher costs to downstream prices continued, with some greater impact now being seen on prices in retail trade. Wage pressures remained limited outside of skilled labor positions that continue to experience shortages.

Agriculture. The District harvest started slowly, lagging behind last-year’s pace by two to three weeks. Farmers remained concerned about the potential impact of frost on the yields of replanted soybeans. Corn and soybean prices declined, but volatility remained high over uncertainty about how this summer’s floods and late planting would affect the harvest. Early reports about the harvest indicated that corn and soybean yields were in a range close to average. Heavy precipitation in September helped crops mature,
but also contributed to relatively high levels of moisture in harvested crops, requiring additional outlays to pay for drying. Cooperatives began to buy 2009 crops; however, few farmers were willing to sell at quoted prices. The spreads between futures and cash prices for crops were higher than in the past due to expected increases in transportation costs. Contacts suspected that demand for crops stalled during the summer as prices hit nominal highs and world demand slowed. In addition to crops, prices for milk, hogs, and cattle also fell.
EIGHTH DISTRICT – ST. LOUIS

Summary. Business conditions in the Eighth District have continued to deteriorate since our previous report. Manufacturing activity continued to decline, as did activity in the services sector. Home sales continued to decrease, while activity in commercial construction remained mixed. Total loans at a sample of small and mid-sized District banks decreased slightly during the three-month period ending in mid-September.

Manufacturing and Other Business Activity. Manufacturing activity has continued to decline since our previous report. Contacts generally cited weak product demand and higher input costs as causes of reduced business activity. A few manufacturers reported plans to open plants and expand operations in the near future, although a larger number of contacts reported plans to close plants and reduce operations. Firms in plastic product manufacturing and a small automobile manufacturer announced plans to open new facilities in the District and hire additional employees. Contacts in the steel manufacturing and machinery manufacturing industries reported plans to expand existing facilities and operations. In contrast, firms in the animal slaughtering/processing, apparel, appliance, automotive parts, electrical equipment, fabricated metal, plastic products, and truck transportation manufacturing industries cited declining demand and reported plans to lay off workers and decrease operations.

The District's services sector continued to decline in most areas. Firms in the medical, information, financial, and truck transportation services industries cited weak demand and announced plans to reduce their workforce. A firm in business support services announced plans to close a facility in the District. In contrast, a contact in truck transportation services announced plans to expand facilities and hire additional workers. A contact in health care services announced plans to move executive employees into the District and hire additional workers. Retailers reported that sales volume remains fairly constant, but that consumers have shifted to lower-priced products. One major auto dealer will close operations in the District and another dealer filed for bankruptcy. Auto sales were slightly up from a year ago for some dealers, particularly among those offering customer incentives and rebates. Small cars continued to sell well, but there was slower demand for trucks and large sport utility vehicles.
Real Estate and Construction. Home sales continued to decline throughout the Eighth District. Compared with the same period in 2007, August 2008 year-to-date home sales were down 16 percent in St. Louis, 20 percent in Memphis, 22 percent in Little Rock, and 24 percent in Louisville. Residential construction also continued to decline throughout the District. August 2008 year-to-date single-family housing permits fell in nearly all District metro areas compared with the same period in 2007. Permits declined 37 percent in Little Rock, 40 percent in Louisville, 42 percent in St. Louis, and 57 percent in Memphis.

Commercial construction activity remained mixed throughout the District. One of the Memphis area’s largest commercial contractors reported a record level of committed projects for 2009. A contact in central Arkansas whose firm specializes in general commercial construction reported that the firm’s backlog has decreased from 12 to 6 months as projects have begun to dry up. A contact in St. Louis reported that the industrial real estate market is stable and that developers are not overbuilding. Contacts in Memphis reported that the industrial vacancy rate has remained steady largely because of the lack of new industrial construction so far this year.

Banking and Finance. Total loans outstanding at a sample of small and mid-sized District banks decreased 1.0 percent in the three-month period from mid-June to mid-September. Real estate lending decreased 1.5 percent and now accounts for 73.5 percent of total loans. Commercial and industrial loans decreased 0.8 percent, accounting for 16.9 percent of total loans. Loans to individuals, accounting for 5.1 percent of loans, increased 4.1 percent. All other loans increased 1.4 percent and accounted for 4.5 percent of total loans. Over this period, total deposits at these banks were flat.

Agriculture and Natural Resources. Recent heavy rains throughout many parts of the District have delayed crop harvests. At the end of September, the overall corn, soybean, sorghum, cotton, and rice harvests were behind their normal paces. Since our previous report, overall crop conditions have deteriorated slightly. Yield estimates of corn and soybeans in both Indiana and Kentucky, corn and rice in Missouri, and corn and tobacco in Tennessee declined from August to September. Yield estimates for corn, soybeans, sorghum, rice, cotton, and tobacco in the remaining District states that grow those crops stayed the same or increased.
NINTH DISTRICT – MINNEAPOLIS

Ninth District economic activity slowed since the last report. Decreased activity was noted in consumer spending, construction and real estate, and agriculture. Manufacturing was mixed. Increases in activity were noted in tourism, services, and energy and mining. Labor markets weakened since the last report. Overall wage increases were moderate, while prices for some products decreased.

**Consumer Spending and Tourism.** Consumer spending declined since the last report. September same-store sales at a major Minneapolis-based retailer were expected to have decreased 2 percent compared with a year ago. An apparel retailer based in Minnesota noted that recent slow mall traffic was hampering sales. Two restaurants and a coffee shop recently went out of business in St. Cloud, Minn. A representative of an auto dealers’ association in Montana noted that vehicle sales have slowed, particularly among SUVs and trucks with lower gas mileage. In addition, some dealers noted that customers were having difficulty obtaining credit. A Minnesota auto dealer noted that September sales were down 20 percent from a year ago. In a late September e-mail survey of District business contacts, about half of retailers noted that sales decreased recently, while 30 percent reported increases.

In contrast, traffic at a Minneapolis area mall improved in August and September. A mall manager in Bismarck, N.D., reported solid sales in August and September. Retail sales were up in the Upper Peninsula of Michigan and Fargo, N.D., in part due to Canadian shoppers.

Tourism activity was up slightly from a year ago; however, spending was soft in some areas. A bank director noted that late summer and early fall tourism conditions in northern Minnesota were solid. A South Dakota tourism official reported that visits in September were up about 2 percent compared with a year ago, although camping and retail spending were soft. Restaurant and hotel usage in southwestern Montana were on par with last year, but overall tourism-related spending was lower. A Minnesota-based travel agency is expecting weak business through the rest of 2008 because of slow corporate and leisure travel.
Services. Activity in the services sector was up slightly since the last report. According to the e-mail survey, 46 percent of service industry contacts reported recent sales increases, while 32 percent saw decreased sales. Professional business firms were the most optimistic, while architects and financial services firms were the most pessimistic. Meanwhile, 24 percent of the respondents from financial services firms reported less credit availability compared with 2 percent who reported increased credit availability.

Construction and Real Estate. Construction activity decreased since the last report. According to the e-mail survey, 78 percent of construction industry contacts said recent sales at their firms were down; 11 percent reported increases. A Minneapolis-St. Paul commercial developer mentioned several large projects that were halted in mid construction. Several contractors reported reluctance to offer bids due to uncertainty about future materials prices. The home-building slump continued. The value of August residential permits was down 15 percent and 36 percent, respectively, in Minneapolis-St. Paul and Sioux Falls, S.D., from a year earlier.

Overall real estate activity was slower. Among industry respondents to the e-mail survey, 43 percent said recent sales were down and 14 percent said they increased, while 48 percent said credit was less available and none reported more credit availability. In contrast, a commercial broker in Bismarck, N.D., said the market for office and industrial space there remained strong. Residential real estate remained slow. Sales in most District markets were down. However, pending sales in the Twin Cities at the end of September were above year-earlier levels, and about level with two years ago.

Manufacturing. Overall manufacturing activity was mixed since the last report. A September survey of purchasing managers by Creighton University (Omaha, Neb.) indicated increased activity in the Dakotas and decreased activity in Minnesota. According to the recent e-mail survey, 41 percent of the manufacturing industry contacts reported recent sales increases, while 38 percent saw decreased sales. Several lumber mills across the District recently cut production due to decreased demand. Production is down significantly at a Minnesota construction materials producer. In contrast, a Minnesota machining company said, “Business is good and growing.” A Montana pipe
A South Dakota mining equipment maker is adding production space.  

**Energy and Mining.** Activity in the energy and mining sectors increased since the last report. Oil and gas exploration continued at a strong pace. Expansions of several large wind farms are under way across the western portion of the District. Growth in the mining industry continued since the last report; in Minnesota, a large ore-to-steel plant broke ground and a planned copper mine might break ground next year.  

**Agriculture.** Agricultural conditions decreased from a year ago. Prices for hogs and many District crops decreased from the last report. For most of the major District crops, harvest is behind the pace of a year ago. However, solid yields and production are expected although not as large as year ago levels.  

**Employment, Wages and Prices.** Labor markets weakened since the last report. Minnesota’s unemployment rate reached 6.2 percent in August, the highest rate since the mid-1980s. A Minnesota temporary work services agency noted that billed hours were down about 15 percent in September compared with a year ago. A county in Minnesota has eliminated more than 200 positions due to impending budget shortfalls. An airplane manufacturer eliminated 100 jobs in Minnesota and North Dakota. A Minnesota manufacturing firm related to the housing industry recently laid off 45 full-time employees. Two Montana timber mills recently laid off about 35 workers each. The e-mail survey showed that 24 percent of respondents expect to hire additional workers during the fourth quarter, while 23 percent expect to decrease staff.  

Overall wage increases were moderate. A temporary work services agency noted that employee wages were stable. According to respondents to a recent St. Cloud (Minn.) Area Business Outlook Survey, 66 percent expect no change in employee compensation over the next six months.  

Prices for some products decreased. Minnesota gasoline prices were down 55 cents per gallon from their peak in July, but were still 72 cents per gallon higher than a year ago. Prices for copper and aluminum decreased during the past month. A Minnesota restaurant owner noted that prices for beef, chicken and dairy were still at high levels. While health insurance rates were up about 6 percent compared with a year ago, the
increase was smaller than the past few years. Winter heating bills in Minnesota are expected to increase 10 percent to 15 percent.
TENTH DISTRICT – KANSAS CITY

Economic growth in the Tenth District slowed in September after posting stronger growth in the previous survey period. Overall, consumer spending weakened and expectations for future sales softened. Manufacturing production and orders received declined modestly despite solid export activity. Residential and commercial real estate activity slowed, partly due to worsening credit conditions. Bankers reported tighter credit standards, lower loan demand, and weaker loan quality. The energy sector expanded and agricultural conditions were favorable, despite lower commodity prices. Inflationary pressures were more subdued as fewer manufacturers reported gains in input and finished goods prices. Wage pressures eased amid softer labor markets.

**Consumer Spending.** Consumer spending weakened in September and was expected to ease further in coming months. Retail sales fell after a modest rise in the last survey period. Store managers reported heavy traffic at discount retailers, while department stores continued to struggle. Trucking companies noted lighter shipments as retailers planned to stock less holiday merchandise. Auto sales leveled off after several months of decline, partly due to aggressive incentive and discount programs. Auto dealers noted an uptick in used car sales, especially for fuel efficient models. Auto dealers also anticipated further tightening in credit conditions that would dampen sales. Tourism activity slowed as vacation travel waned and hotels reported fewer business travelers. Air travel remained strong in Denver, but passenger traffic slowed in other District markets. Restaurants noted fewer patrons.

**Manufacturing.** Manufacturing activity declined modestly after rebounding in the previous survey period. Production of durable goods held steady, while output fell at plants producing non-durable goods. Orders, shipment volumes, and order backlogs declined, stabilizing inventory levels. Export activity remained solid. One District contact reported a lack of shipping containers for perishable goods. Some plant managers reported delivery disruptions due to Hurricane Ike. Expectations for future factory activity dropped sharply as manufacturers anticipated further slowing in orders. Capital spending plans were largely unchanged although several agricultural equipment manufacturers announced future plant expansions.
Real Estate and Construction. Residential and commercial real estate activity slowed in September. The residential housing market remained weak despite a brief summer uptick in sales. Prices have declined in markets not heavily tied to agriculture and energy. Inventory levels remained well above year-ago levels even though the number of residential building permits continued to trend down. Real estate agents reported more demand for lower priced homes, especially from investors who were interested in buying rental properties. Tighter credit conditions were expected to further hamper sales as the market enters a seasonal slowdown in activity. While mortgage originations for home purchases declined, District contacts reported that the number of borrowers refinancing their mortgage loans, either for cash-out or to lower their monthly payments, rose in September. Commercial real estate activity slowed further as the number of sales dropped despite modest price declines. Increased equity requirements and more difficulty accessing credit meant some construction projects were placed on hold or cancelled. Rental rates stabilized, but were expected to decline due to an anticipated rise in vacancy rates. Absorption rates declined further and remained below year-ago levels.

Banking. In September, bankers reported lower loan demand, tighter credit standards, and weaker loan quality. Demand fell for all major loan categories, with commercial real estate and residential real estate loans showing the greatest declines. Nearly three-fourths of bankers reported tighter credit standards for commercial real estate loans, up from half of respondents in the previous survey. Almost half of respondents reported tighter standards for commercial and industrial loans, up from a quarter in the previous survey. Banks also reported some tightening of standards for consumer and residential real estate loans, though not as much as for commercial loans. Assessments of current loan quality were weaker than in the previous survey, and banks were also more pessimistic about future loan quality. Bank deposits increased, and a few banks noted that inflows of funds under the FDIC insurance limit were making up for outflows of funds above the limit. When asked about the recent financial turmoil, most banks said the crisis had caused them to become more cautious in their lending and investment and liquidity management.
**Energy.** Energy activity strengthened further in the survey period, even with lower energy prices. The number of active drilling rigs in the District rose to a record high in September, driven by greater exploration in New Mexico. Energy demand was expected to strengthen with the winter heating season. Producers expected drilling activity to hold at elevated levels in the coming months. Wyoming coal production was up in September, as well as year-to-date. Energy companies reported that financing remained available, but shortages of equipment and qualified workers persisted. Expansions in bio-fuels production slowed with lower gasoline prices and relatively high crop prices.

**Agriculture.** Agricultural conditions remained favorable in September. The corn and soybean harvest has begun and initial reports indicated above average yields. The harvest, however, was behind schedule due to late planting that delayed crop maturity. Winter wheat planting was progressing on schedule. Exports of U.S. beef and pork rose, but high feed costs squeezed profit margins for livestock operators. Agricultural loan demand rose further with high input costs. The funds available for loans held above year-ago levels. Farm income expectations and capital spending plans moderated with crop prices dropping below summer highs. Farmland values held steady.

**Wages and Prices.** Since the last survey period, price pressures have lessened and wage pressures eased. Fewer manufacturers reported price increases for both raw materials and finished goods and expectations for future price increases waned. Still, most plant managers reported that input prices remained well above year-ago levels. Retail prices rose only slightly, but were expected to increase further in the coming months. Agricultural producers expanded their operating loans to pre-pay higher input prices. Restaurants planned to raise menu prices in response to higher food costs. Fewer firms expected to hire workers and most did not anticipate raising wages in light of weaker labor markets. The labor market remained tight, however, for skilled jobs in manufacturing and energy firms, as well as minimum-wage positions in the leisure and hospitality industry.
The Eleventh District economy slowed markedly in late August and September. Many businesses were affected by temporary production disruptions caused by hurricanes Gustav and Ike. In addition, softer demand and increased uncertainty caused some firms to reduce investment and payrolls. Moreover, a number of contacts reported recent credit market developments had led them to re-evaluate future plans amid slower growth nationally and internationally. Outlooks were more pessimistic than in the last survey, with respondents citing many “unknowns” on the horizon.

**Prices.** Reductions in energy and commodity prices eased cost pressures in many industries, and transportation expenses were less of a concern than in recent surveys. Fewer firms reported pass-throughs, although several were still trying to recoup cost increases from earlier in the year. Some respondents in industries with soft demand noted recent cost reductions will be passed on to customers, and retailers were offering more favorable promotions. Construction contacts said high costs remain a major issue, but some expect costs to edge down as the number of projects ebb.

Crude oil prices fell from $115 per barrel in mid-August to below $100 by the first week of October. Natural gas prices also edged down, in part due to high inventory levels. Despite a brief spike during recent storms, the national average price of gasoline fell about 11 cents per gallon, and diesel about 24 cents, during the survey period. Contacts expect soft demand for petrochemicals to lead to weaker prices for ethylene and polyethylene in coming weeks.

**Labor Market.** The labor market loosened slightly over the past six weeks, and wage pressures were mild. While most District respondents said employment levels remained steady, there were reports of layoffs in several industries, including primary and fabricated metals, residential construction-related manufacturing and auto dealers. Contacts said skilled financial employees were easier to come by, a result of mergers in the financial industry. Staffing services firms said orders for direct hires were down, although temp activity was holding up.

Pockets of tightness remain, however. Labor shortages are prevalent in the energy sector, and firms continue to steal workers from other industries. Some manufacturing
respondents still reported difficulty finding workers with highly specialized skills. Driver shortages persist, although lower diesel prices were enticing some drivers and operators to return to work. Staffing firms noted difficulty filling upper-level positions.

**Manufacturing.** Many Eleventh District manufacturers reported interruptions in business activity from hurricanes Gustav and Ike. In addition, the credit market squeeze added uncertainty to company outlooks.

Producers of residential construction products said new orders and shipments continued to fall due to worrisome conditions in housing markets. One company had laid off salaried workers for the first time in 20 years. Some respondents expressed concern over builders’ ability to pay existing contracts with suppliers or renew lines of credit. Metals producers said the falloff in demand had worsened recently, in part due to slower growth worldwide.

High-tech manufacturing respondents reported mixed conditions, although overall production and new orders have declined slightly since the last survey. One contact noted the market for memory chips weakened further due to the recent slowdown in the global economy. The current financial situation is reflected in a more cautious business environment, with the possibility of fewer orders from retailers for the upcoming holiday season.

Food product manufacturers said sales were solid, although there were reports of temporary production cuts and export delays due to the storms. Specialized transportation equipment firms said activity remained stable despite demand disruptions from clients tied to the Houston Port. Orders for paper products were mixed.

Refinery production in Texas and Louisiana was severely disrupted by the back-to-back storms, as plants were forced to reduce output or shut down. Contacts say damage was light, and all refineries but one are operating or restarting production. Still, the storms left inventories at record lows, leading to spot gasoline shortages in the southeast and on the east coast.

**Retail Sales.** A combination of factors—weather disruptions, consumer uncertainty and financial concerns—led to mostly weak reports from retailers. Sales of consumer durables were down markedly according to contacts, and the back to school season did not provide the usual bump. Discounters continued to fare better than most.
Respondents said food and gasoline sales remain the primary drivers, while sales of discretionary items are flat to down. Outlooks were fairly pessimistic, yet outside of storm-damaged areas sales are somewhat better in Texas than elsewhere in the country.

Auto sales continued to fall, leading to high inventories, even for used cars. Contacts attributed the weakness to heightened consumer uncertainty related to the current financial environment. While down significantly from last year, truck and SUV sales picked up slightly over the past six weeks, as low prices enticed some buyers. Tighter credit conditions are making it harder for the marginal customer to get a loan, but contacts said the primary problem is the lack of customers.

**Services.** Demand for temporary staffing remained steady overall. Orders were strong for workers in light industrial manufacturing, but had slowed for employees in software/web services. Contacts said orders were down for workers in financial services and auto manufacturing. Legal service activity continued to be concentrated in litigation and bankruptcy work. Respondents said demand for legal services to support real estate and financial transactions had declined sharply, but demand remained strong from the oil and gas sector.

Several respondents in the transportation services sector noted considerable, although temporary, loss of business as a result of hurricane Ike. Intermodal transportation contacts saw a rise in cargo volume last week as activity caught back up after the closing of the Port of Houston. Overall, respondents were thankful the port was closed for just one week, and suffered minimal damage. Railroad cargo volumes continued to decline. The storms reduced cargo volumes of chemicals and petroleum products, while construction materials and motor vehicles volumes fell dramatically—which contacts attributed to weaker consumer demand. While business activity is expected to remain fairly stable through year-end, outlooks reflected increased uncertainty about the economic impact of the current credit market situation.

Eleventh District-based airlines said demand was holding up, despite losses due to Ike-related cancellations. Recent capacity cuts and increased fares helped bolster revenues. While still elevated, the reduction in oil prices is starting to show up in more stable fares at some companies.
Construction and Real Estate. Worsening problems in credit markets permeated construction and real estate markets in the Eleventh District. The pace of new and existing home sales continued to slow, as economic uncertainty kept many potential homebuyers on the sidelines. Those deciding to buy found it much tougher to get qualified. Contacts noted weakness in sales of higher-priced homes, as equity requirements and interest rates for jumbo loans have increased significantly. While inventories remain much lower than in other parts of the country, one builder said foreclosures in Dallas are adding to the supply of moderate to higher-priced homes. On a more positive note, realtors said relocations were spurring some demand, and values appear to be holding up overall. The outlook for the housing market remains extremely uncertain, but many noted the “bottom was in sight”. Contacts said apartment leasing picked up in the third quarter, and rents were holding up in the face of national declines.

Commercial real estate respondents said leasing activity for office and industrial space declined sharply as businesses re-evaluate plans in the face of current uncertainties. Sales of commercial properties continue to plummet, with one contact in the industrial market saying closings had “hit the wall”. Lenders are increasingly wary of raising their exposure to real estate, especially given the recent flurry in merger/consolidation activity which may elevate acquiring banks’ shares of real estate loans on the books. Previously funded projects in the pipeline are expected to keep commercial construction activity solid, but there were reports that some early 2009 projects have been pushed back or halted.

Financial Services. Heightened caution was prevalent among financial services contacts, although most still expect the effects of the current situation to be less severe than in other districts. Lenders reportedly have become even more conservative since the last survey—highly scrutinizing borrowers and enforcing strict underwriting standards. According to some contacts, the cost of capital remains high, inducing lenders to widen loan interest-rate spreads. Very few commercial real estate deals are getting done, with only smaller, low-risk projects able to meet current standards. Contacts said consumer lending is soft, although business lending remains fairly solid. While competition for new deposits is tough, institutions saw an uptick in deposits recently, reflecting a flight to quality from riskier investments.
Energy. U.S. drilling activity rose in recent weeks, with the average number of active rigs above 2,000 for the first time since 1985. More than half the rise was attributed to the Eleventh District. Activity continues to be focused on land-based unconventional natural gas, despite the fall in price to $7.50 per thousand cubic feet. Offshore oil drilling was disrupted by the hurricanes Gustav and Ike, but damage was light compared to Katrina and Rita. While demand for oil has weakened, contacts say long-run prospects for the industry have not changed.

Agriculture. Conditions were mixed in the agricultural sector. Late summer rains helped alleviate drought conditions in parts of the District, but strong winds, the storm surge and severe flooding from Ike caused some crop damage and displaced a substantial amount of livestock. While the storm’s impact should not be significant for Texas overall, it is devastating for affected areas.
TWELFTH DISTRICT– SAN FRANCISCO

**Summary.** Economic activity in the Twelfth District weakened further during the survey period of September through early October. Retail sales were very sluggish on net, and demand fell for most categories of services. Manufacturing activity slowed, but sales continued to grow for agricultural products and natural resources. Activity in District housing markets generally remained anemic, and demand for commercial real estate weakened further. Contacts from financial institutions reported a decline in loan demand and credit quality, along with a drop in credit availability. Upward pressures on prices remained significant overall, due to the delayed influence of past increases in the prices of energy and selected commodities.

**Wages and Prices.** Despite some easing of late, upward pressures on prices remained substantial. Prices on energy and selected commodities, including food products and some raw materials, have come down from their recent highs. However, these prices generally remained at elevated levels and continued to exert substantial upward pressure on overall final prices, due to the delayed effects of earlier price increases. Prices for many retail items were held down by extensive discounting, but some contacts cautioned that pending increases have been working their way through the supply chain and will reach consumers late this year and in 2009.

Wage pressures eased further as the degree of labor market slack deepened. Job cuts were reported across a wide range of industries, particularly in the construction, finance, and real estate sectors. As a result, unemployment rose throughout the District, and contacts noted that wages have been largely flat of late. The primary exception is worker groups whose skills enable them to use advanced technologies, for whom wage gains remained significant.

**Retail Trade and Services.** Retail sales were quite sluggish and appeared to fall during the survey period, despite the influence of the back-to-school shopping season. Sales remained weak and inventories rose further for department stores and smaller retail outlets alike. Discount chains continued to see stronger demand than traditional department stores, as consumers switched away from high-priced items and curbed discretionary spending; outdoor equipment such as camping gear was one bright spot, as
households gravitated towards low-cost vacation options. Sales for retailers of furniture and household appliances continued to slide from already low levels, and unit sales of gasoline fell further. Sales fell considerably for all types of automobiles, both new and used, with reduced credit availability reportedly emerging as a significant constraint.

Demand for services fell further compared with the previous survey period. Health-care providers reported declining demand, with some medical centers noting a significant drop in cash collectibles recently. Sales weakened for providers of advertising, professional, and legal services, idling some workers and reducing capacity utilization. Activity remained moribund for providers of real estate services such as title insurance. Contacts noted modest declines in tourist activity in some major tourist destinations in the District, such as Southern California and Las Vegas; the drop was more significant in Hawaii and was accompanied by layoffs there.

Manufacturing. District manufacturing activity slowed during the survey period of September through early October. Although manufacturers of commercial aircraft still faced an extensive backlog of orders, activity in that sector was sharply curtailed by an ongoing labor dispute. Makers of semiconductors and other information technology products continued to experience high rates of capacity utilization and moderate sales gains, but signs of a softening in global demand have emerged. Demand for wood products remained very weak, causing additional mill shutdowns. Activity at petroleum refineries continued at low levels, and capacity utilization remained well below its longer-term average. Capacity utilization also was very low among metal fabricators, for whom demand has weakened substantially. Firms in most sectors reported limited capital spending of late, with plans to hold flat or reduce spending during the balance of 2008.

Agriculture and Resource-related Industries. Demand and sales for agricultural items and natural resources continued to expand during the recent survey period. Brisk sales were reported for most crops, propelled in part by strong export demand. Demand remained solid for petroleum products, spurring further expansion of extraction capacity. However, the recent decline in oil prices has reduced the viability of some high-cost expansion projects, and the recent hurricanes in the Gulf of Mexico sharply curtailed capacity utilization for District companies with operations there.

Real Estate and Construction. The District’s severe housing slump continued,
while demand for commercial real estate eroded further. Demand and sales remained very weak for new and existing homes, and prices continued to fall. Foreclosure rates on existing homes, which were already high in parts of Arizona, California, and Nevada, rose noticeably in Utah and Idaho. Widespread availability of foreclosed homes at bargain basement prices spurred sales of existing homes to exceed their levels from twelve months earlier in some parts of California. Demand for nonresidential real estate fell, and limited credit availability reportedly constrained property purchases and the number and scope of projects that were underway in some areas. Vacancy rates on commercial space rose in Las Vegas and other major metropolitan areas. Contacts noted that the strongest construction activity by far was for public buildings such as hospitals and schools.

**Financial Institutions.** Lending activity and credit conditions weakened noticeably during the survey period. Demand for commercial and industrial loans fell further, and demand for new residential mortgages remained very weak. Credit availability declined significantly as banks and other financial institutions faced rising difficulties securing short-term funding. Contacts also pointed to higher delinquency rates in all loan categories. Banks and customers are taking steps to enhance deposit-insurance coverage of existing holdings by spreading deposits across multiple banks.