Summary of Commentary on ____________________

Current Economic Conditions

By Federal Reserve District

January 2010
SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

JANUARY 2010
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SUMMARY*

Reports from the twelve Federal Reserve Districts indicated that while economic activity remains at a low level, conditions have improved modestly further, and those improvements are broader geographically than in the last report. Ten Districts reported some increased activity or improvement in conditions, while the remaining two—Philadelphia and Richmond—reported mixed conditions. The last Beige Book reported eight Districts with increased activity or improving conditions and four Districts showing little change and/or mixed conditions.

Most Districts reported that consumer spending in the recent 2009 holiday season was slightly greater than in 2008, but still far below 2007 levels. Retail inventory levels remain very lean in nearly all Districts. Auto sales held steady or increased slightly since the last Beige Book in most Districts. Reports on tourism were mostly flat or weak, but for two Districts whose ski resorts enjoyed early season snowstorms. Nonfinancial services activity generally improved in Districts that reported on this sector. Of five Districts reporting transportation services, volumes were slightly up or mixed. Manufacturing activity has increased or held steady since the last report in most Districts. Among Districts reporting on near-term expectations, the manufacturing outlook was optimistic, but spending plans remain cautious.

Toward the end of 2009, home sales increased in most Districts, especially for lower-priced homes. Home prices appeared to have changed little since the last Beige Book, and residential construction remained at low levels in most Districts. Commercial

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real estate was still weak in nearly all Districts with rising vacancy rates and falling rents. Since the last report, loan demand continued to decline or remained weak in most Districts, while credit quality continued to deteriorate. Cold weather at the end of the year adversely affected some late crops and stressed livestock, but above-average yields for early crops were reported by some Districts. Energy-related production has risen moderately since the last Beige Book.

Although some hiring was reported in a few Federal Reserve Districts, labor market conditions remained generally weak with modest wage increases appearing in just a few Districts. Price pressures remained subdued in nearly all Districts, though increases in metals prices were reported and agricultural prices have been mixed.

**Consumer Spending and Tourism**

Consumer spending in the recent 2009 holiday season was modestly greater than in 2008 for eight Districts, although as retailers in the Philadelphia and San Francisco Districts noted, 2008 sales were so low compared with 2007, that the relatively small 2009 gains did not represent a significant shift in trend. Consumers were variously described as cautious, price sensitive, and focused on necessities, but sometimes willing to spend on discretionary purchases. Kansas City and New York reported holiday sales comparable to prior year sales, while Cleveland and Richmond reported weaker holiday sales in 2009 than in 2008. Entering the holiday period, retail inventories were maintained or lowered further to lean levels in the Atlanta, Boston, Chicago, Cleveland, and New York Districts. Some Chicago retailers reported running out of high-demand items during the holiday season, but inventory levels rose slightly in the Kansas City District.
Auto sales were flat or up slightly for some dealers since the last Beige Book in the Atlanta, Chicago, Cleveland, and Philadelphia Districts. Dealer incentives boosted year-end inventory clearance according to Chicago District contacts. In the Dallas, Minneapolis, New York, and San Francisco Districts auto sales held steady or were mixed across states. The Kansas City and Richmond Districts reported lower auto sales since the last report. Some dealers in the Cleveland and New York Districts cited difficulties securing floor-plan financing. Difficulties securing customer financing was a concern cited by some Kansas City District dealers, while Philadelphia District dealers credited easier financing for supporting their recent sales.

Early-season snowstorms gave ski resorts a big lift in the Richmond and Minneapolis Districts; otherwise travel and tourism reports were mostly flat or weak in these and other Districts. One Minnesota-based travel services firm shut down due to lack of demand, and Richmond’s tourism contacts reported consumers searching for deeply discounted packages and dining out less despite special offers. The New York, Atlanta, and Kansas City Districts also reported flat or weaker tourism. New York City’s Broadway theaters reported weaker attendance this past holiday season than in 2008. Atlanta reported sluggish tourism throughout their District, but expected a boost from hosting upcoming National Football League events, and from strong 2010 cruise line bookings—a result of deep discounting. Kansas City and San Francisco noted sluggish business travel, placing downward pressure on airline passenger volumes, while Dallas reported airline demand recovering and fares stabilizing. The San Francisco District reported greater visitor volumes in Hawaii and Las Vegas, while occupancy rates in Seattle and Southern California were down.
Nonfinancial Services

Districts reporting on nonfinancial services generally indicated an upward trend in activity, although in some areas reports were mixed. Boston reported widespread positive activity in advertising, consulting, private equity firms, healthcare, biotechnology, education, and government services. High-tech service firms reported favorable conditions in Kansas City. New York reported a general pickup in activity. Health care providers reported increased demand in the San Francisco District, while professional services, especially advertising and accounting weakened. The Minneapolis District also reported mixed results across sectors, while activity in the Richmond District was generally down. Hiring through staffing firms was reported up in New York, Cleveland, Chicago, and Dallas with office and health care workers in greatest demand. Direct firm hiring was reported up in the St. Louis District, flat in Dallas, flat to down in New York, and down in Richmond.

Among the five Districts reporting on transportation services, activity was mostly up slightly, or mixed. Freight shipping volumes were up slightly in the Atlanta, Cleveland, and Dallas Districts, while Kansas City reported a slight slowdown in activity. The Richmond District’s port activity gained from increased international trade, especially imports of high-end vehicles, but intermodal firms in the Dallas District reported that imports dropped and exports flattened producing no increase in cargo volumes. Dallas also reported continued declines in rail cargo volume.

Manufacturing

Manufacturing activity has improved since the last report in six Districts. New York reported a general pickup in activity, broad optimism, and some increase in
employment. Production was stable or slightly up in the Cleveland District. Firms in the
Cleveland District expect greater export opportunities going forward, but steel firms
expect slow growth in overall demand. Manufacturers in the Chicago District cited gains
at firms tied to the auto industry and those benefiting from an increase in exports to Asia.
Firms in the Boston District also cited Asian exports as well as defense work as sources
of their positive demand, but identified weak demand for exports to Europe and for
products related to energy sectors and commercial construction. San Francisco reported a
modest net improvement in manufacturing activity, with semiconductors strengthening
and aircraft and parts stabilizing at moderate levels. Metal fabricators and housing
products have also stabilized, but at very low levels.

Three Districts reported mixed results for manufacturing. Food products,
furniture, and chemical firms reported slight increases in the Philadelphia District while
other manufacturing sectors continued to decline. Dallas reported strength in high-tech
and corrugated packaging, seasonal increases in food producers, little change in
fabricated metals and petrochemicals, seasonal decreases in aircraft components, and
weaknesses in emergency vehicles and construction-related manufacturing. The
Minneapolis District reported manufacturing activity up in Minnesota, but down in the
Dakotas based on a recent survey of new orders.

Manufacturing activity was weak in the other Districts. Richmond reported
widespread weakness across shipments, new orders, and employment within its
manufacturing sector and Atlanta saw orders and production drop back after an increase
in November. The St. Louis District reported a continued decline in activity, persistent
weakness in employment, and plant closings, on net.
Manufacturers’ expectations for the near future as reported from the Boston, Chicago, Cleveland, Kansas City, New York, and Philadelphia Districts were all optimistic, although Kansas City firms were less optimistic than the last report. Capital spending plans remained more cautious. Only Boston and Philadelphia reported that firms were planning to increase capital spending in the current year. Cleveland, Chicago, and Kansas City reported expectations of continued modest spending.

**Real Estate and Construction**

Homes sales increased toward the end of 2009 in most Federal Reserve Districts, except San Francisco, where demand for housing has been steady, and Kansas City, where residential real estate activity has eased since the last Beige Book. In New York, Richmond, and Atlanta, residential real estate activity was described as mixed across areas of the District. In the Atlanta District, existing home sales increased, but new home sales decreased. In all Districts, sales of lower-priced homes tended to increase proportionately more than sales of higher-priced homes, due at least in part to the first-time buyer federal tax credit, according to real estate contacts. In several Districts real estate contacts reported that the original expiration date for the credit boosted sales in November and led to a more than usual slowdown in sales in December. However, some contacts noted that the extension of the credit into 2010 could give an added impetus to the expected seasonal sales upturn this spring. Residential construction activity remained at low levels in most Districts, although home building was reported to have increased in the Chicago and Minneapolis Districts. Home prices appeared to have changed little since the last Beige Book, overall. Boston, Philadelphia, and Cleveland reported declines in
home prices since the last Beige Book. Richmond reported nearly steady prices. Dallas reported some firming in prices.

Nonresidential real estate conditions remained soft in nearly all Districts. New York, Philadelphia, Kansas City, and San Francisco reported further weakening in demand for commercial and industrial space. Boston received mixed reports on sales and leasing activity from commercial real estate contacts in the District, and Minneapolis reported some increases in sales of commercial buildings. Richmond reported that sales of nonresidential properties remained slow, but that leasing of office and retail space has picked up. Vacancy rates were rising and rents were declining in most Districts. Several Districts reported that landlords were focused on tenant retention and that slack demand was allowing tenants to negotiate lease extensions at low rents and with favorable allowances. San Francisco reported that lower rents appeared to be supporting an upturn in leasing in some parts of that District, although vacancy rates continued to rise.

Nonresidential construction activity was generally weak in all Districts, although St. Louis reported some gains in construction of education facilities and Cleveland reported a recent increase in nonresidential contracting.

**Banking and Finance**

Loan demand continued to decline or remained weak in most Districts. St. Louis, Kansas City, Dallas, and San Francisco noted general declines or soft loan demand. New York reported declining demand for all types of loans except residential mortgages for which demand has been steady. Philadelphia reported continuing declines for all categories of credit. Cleveland noted declining demand for business loans and underutilization of commercial credit lines. Richmond reported that commercial and
industrial loan demand was steady to slightly up since the last Beige Book but still down year-to-year. Chicago noted low utilization of commercial credit lines but an uptick in financing of mergers and acquisitions. Other recent increases were reported for mortgage refinancing in the Atlanta District and auto loans in the Chicago District. San Francisco noted a small improvement in venture capital financing and initial public offerings.

A number of Districts reported that credit quality continued to deteriorate. Financial institutions in the New York District reported ongoing increases in delinquencies for all types of loans. Banks in the Philadelphia District reported that delinquencies and defaults continued to rise for all types of loans, although less sharply than at the time of the previous Beige Book. Cleveland received reports of steady consumer credit quality but high and rising commercial loan delinquencies. Kansas City noted year-over-year declines in credit quality among financial institutions in the District, and Dallas and San Francisco reported continued deterioration at financial institutions in their Districts.

**Agriculture and Natural Resources**

Federal Reserve District Banks reporting on agricultural conditions generally indicated that cold weather at the turn of the year had adversely affected crops and stressed livestock. Atlanta noted damage to citrus crops from the cold, and Chicago and Minneapolis reported that winter storms halted corn harvesting, and impeded tillage and fertilizer application. However, Dallas reported that rain improved soil conditions after a dry period in that District. Corn and soybean crop yields before the onset of cold weather and storms were described as above average in the Chicago and Kansas City Districts. Kansas City also reported that the winter wheat crop was progressing normally. San
Francisco reported an increase in sales of agricultural products, with a boost from a rise in demand from foreign countries. Agricultural prices have been mixed. Grain and soybean prices were mostly on the rise, according to reports from Chicago and Kansas City. Chicago also reported increased prices for milk and hogs, but a decline in cattle prices.

Production of energy-related materials has risen modestly since the last Beige Book. Atlanta reported that oil production has continued to increase. Minneapolis reported an increase in oil and gas exploration, and Kansas City and Dallas reported increases in drilling. San Francisco noted an increase in extraction of natural gas but a continued low rate of oil extraction. In contrast to generally rising oil and gas production, coal production was reported to have declined by Cleveland and St. Louis, and falling iron mining activity was reported by Minneapolis.

**Employment, Wages and Prices**

Labor market conditions remained soft in most Federal Reserve Districts, although New York reported a modest pickup in hiring and St. Louis reported that several service-sector firms in that District recently announced plans to hire new workers. In the Richmond District, temporary employment agencies gave mixed reports, but some noted increased demand for administrative and sales workers, laborers, and warehousing and distribution workers. Wage pressures remained subdued in most Federal Reserve Districts, and Atlanta noted continued wage freezes at some employers in that District. However, Boston reported some modest pay increases, and Minneapolis indicated that wages in that District have been level or rising moderately.
Price pressures remained subdued in nearly all Federal Reserve Districts, although increases in metals prices were noted in Boston, Cleveland, Minneapolis, Dallas, and San Francisco. Raw materials prices, other than metals, were reported to be mostly steady, although firms in the New York, Philadelphia, and Chicago Districts noted some increases in the cost of the inputs they use. Agricultural commodity prices were reported on the increase by Chicago, Kansas City, and Dallas. Most Districts reported that retail prices have been steady.
FIRST DISTRICT – BOSTON

First District business contacts report that activity has picked up in recent months. For retailers and some advertising and consulting firms, the pickup has led to flat to positive year-over-year sales, while manufacturers’ revenues mostly remain below year-earlier levels. A couple of commercial real estate contacts see very modest improvement while others remain downbeat; residential real estate sales (but not prices) are up substantially in response to the 2009 new homebuyers’ tax credit. Prices are generally said to be stable, except for selected metals prices, which are reported to be rising. With some exceptions, First District business respondents say employment is level or up slightly; some firms intend to raise pay levels modestly in 2010. The outlook remains cautious.

Retail

Contacted retailers in the First District report mostly positive sales results for the months of November and December. Same-store sales vary from flat to positive mid-single-digits year-over-year. Respondents say sales and holiday spending are better than expected overall and that consumers seem to be more willing to make discretionary purchases. Most also believe, however, that consumers are much more cautious today than in previous years; as one contact said, “people are not going to be so quick to go into debt in order to buy a $1,000 handbag.” All respondents are cautiously optimistic in their outlook; none expects robust sales in 2010, although some are more upbeat than others.

Contacts continue to manage inventory levels cautiously, with several retailers reporting that levels have been intentionally decreased from prior year. Capital spending also remains carefully controlled, with some contacts cautiously increasing spending in ways they believe will enhance the company’s long-term growth potential. Respondents are increasing headcount in line with new store openings and say hiring restrictions have been removed in order to take advantage of available talent. A few contacts indicate that merit increases have been restored. Selling prices are reportedly stable.

Manufacturing and Related Services

Many manufacturing and related services contacts headquartered in the First District report quarter-over-quarter improvements in demand during the final months of 2009. For the most part, gains in sales or orders are characterized as slight, selective, or from a depressed base. Some capital goods and consumer durables manufacturers either have seen no improvements to date or have experienced setbacks in demand after a short period of improvement. The most robust sales gains are due to rising Asian and defense-related demand; European, energy-related
and commercial-construction-related demand are described as depressed or weakening. Most manufacturing contacts characterize their inventory levels as tight or under tight management.

Manufacturers report that metals prices are rising, but that most other materials costs continue to hold steady. Some respondents are planning to raise prices for services or nondurable products. After a period marked by price erosion, a maker of building equipment is considering raising selling prices in response to higher metals costs; on the other hand, a furnishings manufacturer reports continued downward pressure on prices and no ability to pass along higher input costs. Most other contacts indicate that selling prices are holding steady.

Having reduced employment levels over the past year, most contacts are now holding domestic headcounts relatively steady or increasing them modestly. Some anticipate making further reductions in 2010, however. Manufacturers’ budgets call for merit pay increases of under 3 percent in the coming year. Many firms expect to adjust the timing and/or magnitudes of pay and benefit adjustments in response to business developments.

Manufacturing respondents are planning for level or slightly higher capital spending in the New Year, mostly financed internally. Contacts indicate that they have adequate plant capacity to meet somewhat higher demand. Some firms are planning new investments in IT, factory reorganization, or product development. Several respondents mention the possibility of making acquisitions.

Manufacturers and related services providers are guardedly optimistic about business conditions over the coming 6 to 12 months. Contacts expect growth in revenues and profits, but they cite a variety of factors that are likely to constrain the extent of recovery or possibly even derail it.

Selected Business Services

The majority of First District advertising and consulting contacts report positive results in the fourth quarter, with demand rising up to 30 percent quarter-over-quarter. On a year-over-year basis, business ranged from down 25 percent to up 23 percent. Demand from private equity firms is starting to pick up, but continues to be very slow. Fewer uncertainties about health care reform are driving up demand from healthcare and biotechnology companies. Demand from educational institutions, from the government, and from the tourism sector is strong as well.

Contacted companies continue to experience price pressures but are managing to hold prices steady or to negotiate supplier’s prices in the fourth quarter. Contacted firms plan to raise prices by 3 percent to 10 percent in 2010. Hiring will increase in most firms to hold workforce stable or to increase headcounts to keep up with sharp demand increases. Base compensation will
go up modestly—by 2 percent to 5 percent—in 2010. Bonuses in some firms are expected to be much higher next year than this.

Contacted advertising and consulting firms say they are either cautiously or very optimistic about next year’s outlook. Projections of demand growth range from zero percent to 50 percent. Cost controls, increases in demand, and new sales strategies are expected to drive profitability up in 2010.

**Commercial Real Estate**

While some contacts remain downbeat about the region’s commercial real estate market, others note modest improvements in market conditions. Reports of leasing and sales activity are somewhat mixed. Activity is “very limited” in Hartford and, according to one contact, “very slow” in Boston. However, another Boston contact reports a modest increase in office leasing volume in recent weeks—at rock-bottom rents—and a Providence contact perceives an increase in deals under negotiation. While one contact describes Boston’s investment sales market as “dreadful,” another reports that volume is higher recently than it was earlier in the year. In Hartford, deals consist of short-term renewals of expiring leases, in which tenants have been willing to pay asking rents in exchange for flexibility on the lease term. In Providence, tenants continue to drive very hard bargains on both rents and improvements. A contact at a Boston-based mutual bank noted an increase in commercial real estate loan delinquencies and in the number of borrowers asking to restructure loans based on anticipated repayment problems.

Two contacts currently express greater optimism concerning the outlook for 2010 than in the previous report, while others remain pessimistic or uncertain. The sources of optimism include anticipated demand for commercial space by the public sector, positive GDP growth forecasts, and stock-market-related improvements in investor sentiment. Sources of pessimism include weakness in retail sales, slow employment growth, and looming bank failures related to commercial real estate loans.

**Residential Real Estate**

Home and condo sales in New England increased significantly in November 2009 compared to the previous November. Much of this increase can be attributed to the original November 30th deadline for the first-time homebuyer tax credit. Although the tax credit has since been extended and expanded, many consumers earlier set up deals for November closings to take advantage of the credit they thought would not be available after the month ended. Thus, November home sales increased from 50 percent to 75 percent year-over-year across the region. In addition to the expiring tax credit, contacts attribute the steep year-over-year increases to the fact that November 2008 was a particularly poor month for home sales because of the stock
market collapse in the fall of 2008. Nevertheless, pending sales numbers in November looked strong in Boston and the rest of Massachusetts, suggesting that sales may continue to increase in the coming months, at least until the new tax credit expires. Contacts are concerned, however, that ongoing declines in inventory in Massachusetts and Rhode Island will constrain sales unless the expansion of the tax credit to “move-up buyers” brings more sellers into the market.

Home prices did not show as much improvement as sales in November. Median prices declined modestly year-over-year in New Hampshire and Maine, while increasing by about 1 percent in Massachusetts and Rhode Island. However, as in recent months, median prices were probably affected by the concentration of sales among first-time homebuyers. Condo markets also saw large sales increases and moderate price declines in November.
SECOND DISTRICT--NEW YORK

The Second District’s economy has shown further signs of improvement since the last report, with indications of a modest pickup in the labor market; prices remain relatively stable. Business contacts, in general, report some expansion in activity, with manufacturing contacts also indicating that they are adding workers. Retailers mostly report that holiday-season sales were roughly on par with 2008 levels but ahead of plan; inventories were characterized as much leaner going into the season than last year, leading to less discounting than in 2008 in most cases. Auto dealers report mixed sales results for November and December, but they express a general sense of optimism about the outlook for 2010. Tourism activity in New York City showed some signs of tapering off towards the end of the year. Commercial real estate markets were steady to softer in the fourth quarter, with the sales/investment market remaining moribund. Residential real estate markets showed signs of stabilizing. Finally, bankers report steady demand for home mortgage loans but further weakening in loan demand in other categories; they also note ongoing increases in delinquency rates in all categories.

Consumer Spending

Retailers generally report that holiday-season sales were little changed from 2008 levels but moderately ahead of plan, as many stores carried significantly lower inventories than last year. Two major chains indicate that their sales were modestly above plan in December, led by sales of winter apparel; one contact noted that cosmetics and fragrances sold particularly well, while another noted that fine jewelry was one of the weaker categories. Contacts at these chains report less discounting and fewer clearance sales—both before and after Christmas—than in 2008. Separately, a survey of small retailers across New York State also indicates that sales were generally on or a bit ahead of plan in December, led by sales of cold-weather apparel; most of these retailers noted that they held lean inventories. Contacts
at two major malls in upstate New York describe sales as relatively strong and ahead of plan—buoyed, in part, by brisk demand from Canadian shoppers—though there was a strong preference for lower-priced merchandise, and discounting was reported to be steep. At these malls, stores that were reluctant to discount generally showed poor results; electronics retailers reportedly fared particularly well.

Auto dealers indicate mixed results: contacts in the Rochester area report that sales continued to improve in November and early December and were running ahead of comparable 2008 levels. In contrast, dealers in the Buffalo area describe sales as sluggish, continuing to run roughly 20 percent lower than a year earlier. Still auto dealers across western New York say they are optimistic about sales prospects for 2010; they maintain that credit availability for consumers has improved, but that the dealers themselves continue to face tight “floor-plan” credit—a revolving credit line that a dealership uses to purchase vehicles.

Tourism activity in New York City has been steady to weaker since the last report. Manhattan hotels report that occupancy rates were steady at fairly high levels in November and the first half of December and remained slightly above comparable 2008 levels; room rates were still down roughly 15 percent from a year earlier but appear to have leveled off since mid-year, when year-over-year drops hovered around 30 percent. Broadway theaters report that attendance was notably sluggish during this past holiday season: the seasonal pickup was much weaker than usual, and December attendance fell below year-earlier levels, though revenues were up modestly, reflecting higher ticket prices in 2009 than in 2008. Finally, the Conference Board reports that consumer confidence among residents of the Middle Atlantic states (NY, NJ, Pa), declined modestly in December.
Construction and Real Estate

Commercial real estate markets in the District were mixed but, on balance, softer since the last report. Manhattan’s office vacancy rate leveled off in the final quarter of 2009, but asking rents on Class A properties reportedly tumbled by 15 percent and were down 26 percent from a year earlier. Office markets surrounding New York City were mixed: asking rents declined moderately, while vacancy rates were little changed overall—up slightly in Westchester and Fairfield Counties but down slightly in northern New Jersey and Long Island. Office markets in upstate New York were generally stable, on balance, with faint signs of improvement in the Buffalo and Albany areas but modest softening in metropolitan Rochester. Sales transactions of office properties were exceptionally low throughout the District in the fourth quarter, and, in most cases, down from both the third quarter and a year earlier.

Housing markets have been mixed but, on balance, steady since the last report. Home sales reportedly slowed considerably in the Buffalo area in November and early December, though prices remained higher than a year ago; this slowing is partly attributed to the expiration of the [now extended] homebuyer tax credit. Contacts in northern New Jersey report that resale activity and prices have picked up modestly, though both remain at fairly depressed levels; the uptick in prices may be partly due to fewer distress sales. New home construction in northern New Jersey remains stable at an exceptionally low level, with a modest pickup in multi-family development offsetting further weakening in the single-family sector. New York City’s housing market has shown some signs of stabilizing. Co-op and condo prices continued to decline in the fourth quarter but at a more moderate pace than earlier in the year—in both Manhattan and the outer boroughs. Moreover, the number of transactions picked up, both from the third quarter and from a year earlier, and the inventory of unsold units, though still fairly high, fell 25 percent from late-2008 levels. Manhattan’s
apartment rental market also showed signs of stabilizing in December, as both rents and inventories were virtually unchanged from November. Still, rents remain well below year-earlier levels, especially when landlord concessions (fee waivers and free rent for 1-2 months) are factored in, though some of the more aggressive incentives are reportedly being scaled back.

**Other Business Activity**

A major New York City employment agency, specializing in office jobs, reports that hiring activity has picked up a bit—primarily from the city’s financial industry—during what is usually a slow season. More generally, contacts at manufacturing firms report some ramping up in employment, whereas contacts in other sectors continue to report steady to declining employment at their firms; however, both manufacturers and other firms plan to increase employment levels in the first half of 2010. Retailers generally report that they tended to boost holiday-season staffing levels by giving existing workers longer shifts to a greater extent than last year, as opposed to hiring and training temporary seasonal workers; this also suggests somewhat fewer impending post-holiday layoffs than a year ago.

Looking at overall business conditions, both manufacturing and non-manufacturing contacts report a pickup in activity; manufacturers remain broadly optimistic, while non-manufacturers now express a less negative view of the current business climate and are considerably more optimistic about the general outlook than they have been in well over a year. Contacts report little change in their selling prices, on balance, though a growing proportion indicate some pickup in price pressures and expect input prices to rise in the months ahead.

**Financial Developments**

Second District banks report that demand continued to decrease for all types of loans except residential mortgages, where demand is reported to be steady. Bankers also report
decreased demand for refinancing. For all loan categories, respondents continue to indicate tightening of credit standards. Contacts note an increase in the spreads of loan rates over costs of funds for all loan categories except residential mortgages, where they report no change. Respondents also indicate further decreases in average deposit rates. Finally, respondents report ongoing increases in delinquency rates across all loan categories.
Economic conditions in the Third District have been mixed since the last Beige Book. Manufacturers, on balance, reported a modest increase in shipments and new orders. Retailers indicated that sales increased marginally for the holiday shopping period compared with a year ago. Motor vehicle dealers indicated that sales have improved slightly. Third District banks continued to report decreases in loan volume outstanding and further declines in credit quality. Residential real estate agents and home builders said sales were seasonally slow in December following an increase in November. Nonresidential real estate leasing, purchase, and construction activity continued to decline. Business firms in the region indicated that prices of most goods and services have been steady, although reports of higher commodity prices have become more widespread since the last Beige Book.

The consensus among Third District business contacts is that business conditions will improve slowly in most sectors during the first half of 2010. Manufacturers forecast a rise in shipments and orders during the next six months, on balance. Retailers expect sales to rise if overall economic conditions improve. Auto dealers expect sales in 2010 to be somewhat above the level in 2009. Bankers expect demand for credit to pick up by mid-year. Residential real estate contacts believe housing demand will rise as spring approaches. In contrast, contacts in nonresidential real estate expect leasing and construction to remain weak through most of the year.

Manufacturing

Third District manufacturers reported increases in shipments and new orders, on balance, from November to December, although the number of firms posting gains did not exceed the number recording declines by a wide margin. Makers of food products, furniture, and chemicals noted increased demand for their products. Declines in demand were reported from most of the other major manufacturing sectors in the District. Firms reporting increases in orders generally indicated that the gains have been slight. One said that “business is getting a little better, but nothing to write home about,” and another said that “we’re keeping busy but it’s hand to mouth; there’s no backlog.”
Third District manufacturers expect business conditions to improve during the next six months, on balance. Among the firms polled in December, about four-tenths expect new orders and shipments to increase during the first half of the year; about two-tenths expect decreases. Several firms noted that the outlook for future taxes, health-care regulations, and energy costs were negatively affecting their expectations as well as those of their customers. Although the area manufacturers planning to increase capital spending outnumber those planning to decrease capital spending, the positive ratio has not increased since the last Beige Book.

**Retail**

Third District retailers reported marginal year-over-year increases in sales, on balance, for December. A snowstorm on the weekend before Christmas curtailed shopping, and many stores closed. However, many stores were open for extended hours in the four days before Christmas, and several retailers estimated that they recouped sales lost on the weekend. Several Third District retailers noted that the sales improvement for the 2009 holiday period compared with 2008 did not represent a significant shift in the sales trend. Poor results in 2008 made a gain for 2009 easier, according to this view. Looking ahead, store executives say sales will increase significantly only if employment and financial conditions improve.

Some Third District auto dealers reported improvement in sales in December, although, for most, sales have been roughly steady. Dealers said financing for buyers has become somewhat more available, helping to support the sales rate. Looking ahead, dealers expect total sales in 2010 to slightly exceed sales in 2009.

**Finance**

Total outstanding loan volume at Third District banks continued to slip in December, according to bankers contacted for this report. Bankers said lending activity has been soft in nearly all major consumer and business credit categories, mainly due to slack demand, although some lenders reported slow growth in their auto lending. Besides low demand, some bankers indicated that overall loan volume was declining because of write-offs. Credit quality remained a concern for Third District bankers. Although most
of those contacted for this report said delinquencies and defaults have been rising less rapidly recently than they had through most of 2009, bankers expect charge-offs to remain high for some time.

Looking ahead, Third District bankers see slow loan growth starting around mid-year as the economy recovers and loan demand picks up. Until then they expect write-offs and the continuation of stringent credit standards to limit expansion in lending. One banker said that “standards of lower loan-to-value ratios and higher credit scores are being maintained and that will limit loan growth,” and another said that “we are focused on preserving capital and minimizing future losses.”

Real Estate and Construction
Sales of new and existing homes were seasonally slow in December after a gain from October to November, according to local real estate agents and home builders. Real estate agents said the number of homes listed for sale remained high relative to the sales rate, and average selling prices continued to fall. Most of the real estate agents surveyed for this report characterized the market as “stabilizing” or “hitting the bottom.” They expect sales to rise in the spring with a boost from the extended home-buyer federal tax credit. However, they do not expect sales prices to begin to move up with the expected increase in sales. Most agreed with the opinion expressed by one agent that “prices might begin to stabilize in 2010.”

Nonresidential real estate firms indicated that leasing, purchase, and construction activity continued to decline as 2009 came to a close. They also reported that vacancy rates remained on the rise. Contacts said that building owners have been reducing rents as leases come due for renewals, and tenants have been generally renewing leases for less space and shorter terms. One contact said that “slower general business activity has resulted in many properties not generating cash flow. They are not worth the same amount of money they were worth a few years ago.” According to this contact, recent and prospective declines in commercial property values have induced many property owners to withhold them from the market and have deterred many buyers from making purchases. Contacts expect nonresidential real estate markets to remain weak through most of 2010.
Prices

Reports on input costs and output prices have been mixed since the last Beige Book. The number of manufacturing firms noting increases for the commodities they use has risen, but most continued to report that they have not raised the prices of the products they make. Retailers have generally kept their selling prices steady, although discounts became more common toward the end of the holiday shopping period. Business firms in all sectors expect increases in energy costs and some commodity prices during 2010.
FOURTH DISTRICT – CLEVELAND

The economy in the Fourth District has shown some signs of improvement since our last report, although overall activity remains at a low level. Reports from manufacturers indicated that production was stable or slightly up, with several citing growth opportunities in off-shore markets. Little change was seen in new-home construction, whereas non-residential builders reported a small increase in contract awards. Financing remains a major issue for residential and commercial contractors. Sales by District retailers and auto dealers were flat. Energy production held steady, and reports showed a slight upturn in freight transport volume. Business and consumer lending activity remains soft, while the growth rate in core deposits is starting to decline.

The labor market remains weak, but some business owners started recalling a few workers or increased production hours. Staffing-firm representatives reported an increased number of job openings, especially in the healthcare industry. Given the weak labor market, wage pressures are contained. We heard many reports of rising prices for metals, especially steel. Otherwise, raw material and product pricing were relatively stable. Capital spending and inventories remain under tight control.

Manufacturing. Reports from District factories showed that production was largely stable or slightly up during the past six weeks, with any reductions being attributed to seasonal factors. Comparing on a year-over-year basis, most of our contacts told us that production levels have not changed or have showed a moderate rise. Manufacturers are more upbeat in their outlook since our last report, and many expect volume to slowly increase during 2010, with several citing opportunities in export markets. Steel shipments were in line with expectations or exceeded them, although volume reports varied widely. Increased volume was attributed primarily to military spending and other government-funded projects. Our steel contacts expect slow growth and are uncertain about which industries will drive demand. District auto production showed a modest decline during November on a month-over-month and year-over-year basis for domestic and foreign nameplates.

Manufacturers reported that they have completed rebalancing their inventories. Capacity utilization is holding steady, but at rates substantially below pre-recession levels. Investment in capital projects remains weak, with spending expected to continue on the low side during 2010. We heard many reports of a rise in metal prices (especially steel). Steel increases were attributed to rising scrap costs, which prompted steel producers and service centers to raise their own prices. Otherwise, the cost of raw materials was generally stable. About half of our respondents said that they have
increased work hours or recalled a few production employees, and wage pressures are contained.

**Real Estate.** Reports indicate little change in new-home construction during the past six weeks, while sales on a year-over-year basis are slightly better. Purchases of entry-level homes continue to do well, and a few builders reported a recovery in the move-up category. Looking forward, about half of our contacts characterized themselves as cautiously optimistic. Other contractors see little improvement, which they attributed in part to downward pressure on prices resulting from a new wave of foreclosures. Home builders reported that banks are unwilling to lend money for purchasing land or constructing spec houses, resulting in a substantial depletion of inventories. List prices of new homes remained stable or were reduced slightly during the past few months, while construction material costs held steady. General contractors continue to operate with skeleton crews, and many subcontractors are struggling to keep busy.

Reports on activity in non-residential construction, including public works, were mixed. Although most of our contacts said that business has fallen on a year-over-year basis and many have nearly depleted their backlogs, inquiries have improved and we heard several reports of contract awards. A majority of contractors now expect at least a slight improvement in activity during 2010. We continue to hear numerous accounts of difficulties in obtaining financing and refinancing. Construction material prices were stable. Half of our respondents reported that they have reduced their workforces since our last report. Many subcontractors are struggling and are charging substantially lower rates.

**Consumer Spending.** Most District retailers characterized sales for the period from mid-November to mid-December as flat, when compared to the previous 30-day period. The exception was a restaurant chain, which showed a moderate increase in revenues. Results of a year-over-year sales comparison tended toward the down side. Although holiday shopping gave a modest boost to the purchase of discretionary items, consumers continue to focus on buying necessities and are looking for value-priced substitutes. Several of our contacts are uncertain about future sales. Others expect sales for the first quarter of 2010 to remain flat or to rise slightly at best. Vendor pricing has been relatively stable, although we heard some reports of rollbacks in store prices for basics. A few contacts told us that they are making less use of promotions and markdowns. Retail inventories continued on the lean side. Auto dealers reported that new-vehicle sales have flattened out at a low level since the cash-for-clunkers program ended. On a year-over-year comparison, most vehicle sales figures showed no change or
were slightly up. Used-vehicle purchases were characterized as good, if not better, than those for new-vehicles, resulting in some upward pressure on prices. Dealers were evenly split in their expectations of future sales: flat in the first quarter of 2010 versus a modest increase. Several dealers cited lean inventories and difficulties in obtaining floor-plan financing as reasons for low sales. There has been little change in staffing levels other than seasonal hiring by retailers and job losses at dealerships that closed.

**Banking.** Demand for business loans remains weak, and lines of credit are underutilized. Bankers experiencing increased lending volume attributed it to refinancing existing debt from other institutions. Interest rates and spreads were steady to slightly up. On the consumer side, conventional loan demand was generally characterized as weak to steady at best, while activity in the residential mortgage market slowed further due to seasonal factors. On balance, core deposits continued to grow, although a few bankers said that the rate of growth has tapered off. Interest margins are steady to slightly up. Credit availability remains tight, with some additional incremental tightening of lending standards, especially for commercial real estate loans. In general, the credit quality of loan applicants remains weak or has deteriorated further. Consumer loan delinquencies are relatively stable, while delinquencies among commercial borrowers (especially real estate) remain elevated or are rising. Most banks have not changed the size of their workforces. However, three of our contacts said that they are in a long-term process to reduce employment as a result of restructurings and mergers.

**Energy.** Little change in oil and gas production was reported, although it is expected to increase slightly due to seasonal factors. Spot prices for oil are stable within a narrow range, while those for natural gas were up a little. Coal executives told us that the sharp decline in output has flattened out, with no upturn expected during the next few months. The cost of production equipment and materials remains stable. Capital spending by oil and gas producers was on plan or a little higher than expected, whereas investments in coal production remain at depressed levels. Oil and gas employment held steady, while coal saw some additional workforce reductions. Wage pressures are contained.

**Transportation.** Freight transport executives reported a slight improvement in shipping volume since our last report. However, shipments are below year-ago levels and margins remain depressed. Most of our contacts expressed uncertainty about near-term activity and expect only modest improvements in volume during 2010. A few executives attributed potential changes in federal government regulations and policies as the driving force behind the uncertainty. Capital spending remains at low levels,
although some pickup is anticipated during the next six months. Hiring was limited to replacement only.
Overview. Economic reports across the Fifth District varied in our latest assessment, with a few major sectors reporting moderate contractions over the last month. On the downside, both retail and services firms reported declining revenues, continuing a pattern that had been in place for some time. Manufacturing activity, which had been edging higher since spring, turned down in December, although furniture and textile makers reported an uptick in demand. On the more positive side, both import and export activity at District ports improved, and banking activity received a modest boost, particularly from increased lending for equipment. Conditions in the real estate sector were little changed from our last report, but some encouraging signs were noted in office and retail leasing. Finally, both tourism and temporary employment services reported mixed results for activity over the past month; temporary employment, however, is expected to improve over the near term.

Retail. Revenues generally declined at retail businesses in recent weeks, although a few contacts reported some improvement in sales. Managers at most department stores said sales fell; several grocery store managers also reported a drop in sales even as customer traffic increased. Big-ticket sales languished, notably at automobile dealerships. However, an executive at a hardware chain in central Virginia reported that revenues and customer traffic were up slightly, which he attributed, in part, to “a little movement” in the local housing market. A contact representing several retail establishments also reported revenue growth at small and mid-sized stores despite early discounts, and a manager at a large North Carolina bookstore said customer traffic was “hopping.” A severe snowstorm the weekend before Christmas had a mixed effect on holiday sales, with reports of sales activity ranging from “through the roof” to dramatic declines. However, retail job cuts were more widespread since our last report; retail wages were flat, and prices moved up further.

Services. Revenues at most services firms declined since our last report, but contacts at financial services establishments reported a bit of strengthening in mid-December. Managers at hotels and restaurants reported slower business and specialty contractors continued to experience declining revenues, while demand for services was unchanged at most business-to-business services providers. However, several contacts at financial services firms reported an uptick in revenues—one manager described the mood by saying there was a little more optimism about the markets, but his clients were not optimistic about the economy yet. He quipped, “The economy is
still in intensive care.” Employment and wages edged down slightly at services firms; prices were unchanged since our last report.

**Manufacturing.** District manufacturing slipped in late November and December, although there were some signs of cautious optimism. Contacts reported widespread weakness across shipments, new orders and employment. A window manufacturer said that his business was closing three warehouses and one manufacturing plant in order to align his company to the continued weak economy. A producer of machinery noted that he had experienced the worst month in over a decade and indicated that, if he did not see some improvement after the first of the year, he was not sure how long his company would survive. A textile manufacturer said that, “We have turned the corner,” but added that the biggest issue was getting credit for his customers. A furniture manufacturer noted that residential furniture sales had improved somewhat, although commercial sales remained very soft. A producer of electrical components indicated that export business carried his firm during weak domestic demand. Contacts reported that raw materials prices increased at a slower pace and finished goods prices changed little from a month ago.

Port authorities in the District reported moderate but widespread gains in export and import activity in November and early December, compared to earlier months this year. Several port officials reported both an increase in the number of vessels and the amount of cargo being carried per vessel since the start of the fourth quarter. Shipping lines, according to one official, have adapted “super slow” shipping policies (running ships at slower speeds to conserve fuel), because capacity is abundant and fuel costs are high. High-end vehicles led import gains. Other types of heavy cargo, as well as container goods, also crept up from third-quarter levels.

**Finance.** Loan demand was generally described as either unchanged or slightly higher since our last report, with modest gains noted particularly for equipment spending. While consumer and mortgage loan demand was weak, commercial demand increased in some areas of the District. Several bankers cited examples of small businesses replacing and in some cases expanding their purchase of new equipment; in many instances the borrowers were aided by Small Business Administration programs that guaranteed a portion of the loan. One banker reported that increased spending on public infrastructure contributed to a major purchase of heavy equipment by a construction firm. Nonetheless, most bankers reaffirmed that small businesses were still experiencing a large number of loan rejections due to tight credit standards and weak earnings. Indeed, lending activity remained well below year-ago levels, and several bankers in less urban areas of the District stated that demand was weak, continuing the trend of the last several months.
Real Estate. Residential real estate agents gave mixed signals on house sales activity in the Fifth District. The Fredericksburg housing market had steady sales and a local agent noted that the tax credit program was “keeping people in the game.” However, in Richmond, a contact reported that while buyers continued to look, few had shown urgencies in making offers. Several respondents expressed concern for their markets once the federal tax credit program ends and interest rates start to rise. One contact noted that some banks anticipated a large number of spring foreclosures and were accepting lower prices on the real estate they owned. House prices remained generally steady across much of the District. However, weak consumer confidence remained a constraint. Contacts across the District reported that houses priced in the low-to-middle range remained their best sellers, while sales in the higher price range were rare.

While the sales side of commercial real estate markets remained anemic, agents in the District reported an uptick in office and retail leasing activity over the last two months. Several agents noted that landlords were lowering their leasing rates in exchange for an extension of the length of the lease. In addition, one agent stated that more businesses were making decisions to either expand or upgrade their current facilities. One agent noted that national retail chains, attracted to the relatively low unemployment rates across the District, were actively seeking new sites in anticipation of an expansion in retail spending when the economy improved. In most cases, demand for retail space was also being driven by bargain hunters trying to take advantage of low rental rates. However, one agent noted that retail space in small strip malls was still suffering from high vacancy rates, while downtown retail space was generally in “good shape.” Finally, government agencies were identified by one agent as a key source of leasing demand and, in some cases, were the motivation behind new office construction in the area.

Tourism. Assessments of tourist activity varied since our last report. Contacts along the coast generally reported that bookings were somewhat weaker, which they attributed to people’s lack of confidence in the economy. An hotelier at Virginia Beach and an analyst on the Outer Banks of North Carolina said that tourists were looking for deeply discounted packages. In addition, holiday party bookings were practically nonexistent because groups were having their office Christmas parties on-site. Tourism contacts in Virginia and in the Carolinas characterized consumer spending habits as somewhat weaker than a year ago. They noted that consumers were eating out less than ever before, despite the “specials” offered at area restaurants. On a brighter note, respondents at ski resorts reported an historically high number of bookings, which they credited to significant snow accumulation from a major snowstorm that struck the Atlantic Coast on the last weekend before Christmas. A manager at a ski resort in Virginia said that visits were up 40 percent—the highest number of visits in the last 20 years.
**Temporary Employment.** Temporary employment agents gave mixed reports on recent demand for workers across the District, but were upbeat about future demand. Several agents in Raleigh reported generally improving demand and expected even more strengthening in the coming months. One agent reported that many of his customers were both filling vacant positions and expanding hiring. Another agent noted that several manufacturing companies were hiring contract workers. However, other manufacturing clients were very apprehensive about hiring due to concerns over the underlying strength of their order books. In addition, several agents reported weak demand over the past six weeks, but expected stronger demand over the next six months. A Hagerstown agent expected stronger demand for workers due to a slight improvement in the overall economy. Likewise, a Richmond agent was optimistic about stronger demand for workers at her agency in the near future, due also to some signs, albeit slight, of economic recovery as well as actual improvements in selected divisions of the agency. In general, among the most available positions were in warehouse and distribution centers, general and day labor, and administrative, sales, and quality assurance.
SIXTH DISTRICT – ATLANTA

Summary. On balance, reports from contacts for late November through December suggested overall economic conditions improved in the Sixth District. Most merchants remarked that holiday sales were slightly better than expected, while vehicle dealers noted a pickup in traffic and sales. Hospitality industry contacts observed that while current conditions remained weak, they saw some signs of improvement going into 2010. The information on home sales was mixed. The majority of Realtors reported that existing home sales were above year-ago levels, whereas new home sales and construction activity remained soft. The proportion of manufacturers reporting an increase in new orders and production moved lower in December. Most banking contacts reported that credit standards were unchanged relative to late November. There were fewer reports of layoffs in the District in December, but seasonal hiring was also described as being weaker than last year. Prices remained relatively stable for most businesses.

Consumer Spending and Tourism. The majority of District retailers indicated that holiday sales were better than expected and that discounts were not as deep as last year. Some retailers noted they had lowered prices on certain items in order to draw customers in hopes that they would also purchase other goods with higher margins. Overall, retailers continued to keep inventory levels low. The outlook among merchants was mixed, with almost half expecting a decrease in sales and a third expecting an increase in sales in the first few months of 2010. District vehicle sales remained below the level of a year earlier, but most contacts reported a pickup in year-end activity.

Tourism-related spending remained sluggish throughout the District. Industry contacts reported that hotel reservations and room rates remained below year Ago levels, but the near-term outlook was showing signs of improvement. South Florida hotels and restaurants are expected to gain from two major National Football League events coming to the area in late January and early February. Cruise lines are also reporting strong bookings for 2010, mostly because of heavy discounting.

Real Estate and Construction. Reports from District housing contacts were mixed during November and December. The majority of Realtors reported that existing home sales remained above year earlier levels, while homebuilder reports indicated that
new home sales fell below year earlier levels. Realtors noted that the housing stimulus continued to boost sales. The near-term outlook among most contacts improved modestly. However, construction activity remained soft, while homebuilders continued to report difficulty in competing with bank-owned property.

Commercial construction activity remained at very low levels according to reports from contractors. More projects were put on hold, resulting in less activity expected to get underway for the early part of 2010. Commercial vacancy rates remained elevated and contacts continued to report downward pressure on rents.

**Manufacturing and Transportation.** After improving in November, production levels in the District’s manufacturing plants contracted in December. Fewer contacts reported increased production levels and more noted cutbacks. Likewise, new orders slipped in December after rising during the previous month. With regard to finished inventory, about half of manufacturing contacts noted cutbacks in inventory in November, while in December forty percent reported reductions. Transportation contacts indicated that freight demand remained weak but had modestly improved over the past month. Railway contacts reported that regional rail shipments were flat from a year earlier with gains seen in shipments of motor vehicles, chemicals, and some metals.

**Banking and Finance.** Most banking contacts noted that credit standards remained relatively tight for most types of loans. Banks continued to require more documentation and allowed fewer exceptions than had been the case in recent years. A few contacts reported easing credit terms for their strongest customers. However, most reports noted a tightening of credit standards for commercial real estate loans.

Lending varied across the District, with increases noted in mortgage refinancing and loans to tax-exempt entities. Businesses also appeared to be shopping around for better loan terms, especially where more restrictions had been placed on loan renewals with the current lender. Contacts also noted an increase in credit requests from “unqualified” applicants.

**Employment and Prices.** Reports of layoffs continued to decelerate throughout the District in November and December. However, holiday-related hiring also appeared to be weaker than normal. Firms remained reluctant to hire permanent staff, but some noted increasing temporary hiring and an increase in hours. A few firms also noted that
they do not anticipate bringing their workforce back to previous levels because of the efficiencies realized from recent layoffs. Many firms and government entities continued to enforce wage freezes.

District homebuilders continued to note stable input prices for the reporting period, while most retailers noted that retail prices remained at or slightly down from last year.

**Natural Resources and Agriculture.** District crude oil production continued to increase moderately in November through mid-December, with the number of rigs operating in the Gulf of Mexico up slightly from lows seen in August. Despite the increased production, crude inventories in the region continued to drop as cold weather and holiday travel boosted energy consumption. Most District areas reported excessive surplus soil moisture levels in November and December. Unusually cold temperatures in parts of Florida during early January may have impacted the state’s citrus crop.
Summary. Economic activity in the Seventh District increased in December. Contacts expected activity to continue to rise into 2010, although the pace of recovery was likely to be moderate. Consumer spending increased, while business spending was little changed. Manufacturing improved, but construction remained weak. Commercial real estate conditions deteriorated, but residential real estate activity continued to pick up. Credit conditions improved marginally. Price pressures increased for raw materials, while wage pressures were minimal. Prices for soybeans, wheat, milk, and hogs moved higher, while corn and cattle prices moved lower.

Consumer spending. Consumer spending increased in December. The holiday shopping season was better than a year ago, particularly for sales of clothing, toys, gift cards and entertainment items. Customers remained price sensitive, and there were considerably more specials and promotions this year as retailers were willing to accept lower margins to attract consumers. Inventories declined from their already low levels, and contacts indicated that some stores were starting to run out of items in high demand. Sales of consumer durables and luxury items remained weaker, but contacts also reported greater optimism that demand was building for big-ticket items like household appliances. Early in December, auto sales were at the same pace as the previous reporting period, but then picked up later in the month. Contacts noted that GM dealer incentives put in place to clear discontinued inventory by year-end boosted sales of Pontiacs and Saturns.

Business spending. Business spending was little changed from the previous reporting period. Most contacts expected to maintain their current level of capital expenditures in 2010, noting that sales and capacity utilization had yet to improve enough to justify higher expenditures on plant and equipment. Furthermore, a manufacturing contact noted that equipment capacity was not a problem in his industry; but with the deep cuts to the labor force over the past year, workers would be the greater need to meet projected growth. Current labor market conditions continued to be weak, although the volume of large layoffs declined and some permanent hiring was reported. Several contacts noted an increase in the demand for temporary workers. In addition, a large
staffing firm reported that billable hours increased, particularly from the manufacturing sector and larger businesses. In contrast, permanent hiring continued to be low. A recruitment firm indicated that the transition from temporary to permanent hiring will likely take longer than following recent downturns as employers are remaining particularly conservative in their hiring plans coming out of this recession.

Construction/real estate. Construction activity remained weak in December. Residential development picked up slightly for single-family homes, but remained at a low level for condominiums and townhomes. Contacts indicated that builders were being cautious, working off existing undeveloped lots and planning to maintain low levels of spec homes. In contrast, sales continued to increase. The extension and expansion of the federal homebuyer tax credit contributed to higher sales, although a contact noted that it was having a smaller impact than expected on the single-family market. In the multifamily market, many sales were driven by steep price discounts. Demand continued to be weak for nonresidential construction, although a contact indicated that interest had increased from his manufacturing, particularly automotive-related, customers.
Commercial real estate conditions deteriorated further. Vacancy rates and subleasing activity increased putting additional downward pressure on rents.

Manufacturing. Manufacturing activity improved in December. Manufacturers with ties to the auto industry noted further improvement in demand. In addition, exporters, particularly those to Asia, continued to do well. In general, contacts noted that order books were filling up for the first quarter of 2010, and many expected to see a further uptick in production in the coming months. While overall activity remained low, pending changes to EPA emissions standards continued to benefit manufacturers of medium and heavy-duty trucks and parts; although this was seen as quickly waning going into 2010. Contacts generally expected that the gradual improvement in activity since last summer would continue into 2010. For instance, a contact noted that his business was likely to benefit from the fact that several large customers had freed up funds for capital expenditures put on hold in 2009. However, some contacts expressed doubt as to whether the current pace of recovery was sustainable. For example, a contact indicated that his customers were unlikely to increase their orders until their own sales had improved for a considerable period.
Banking/finance. Credit conditions improved marginally in December. Credit spreads narrowed; and even with longer-term yields increasing, net corporate funding costs for a number of District firms declined. Banking contacts reported little change in business loan demand with continued low utilization of credit lines and most C&I lending going to refinance or pay off existing debt. Contacts did, however, indicate an uptick in financing for mergers and acquisitions as well as investment in distressed real estate. In contrast, small businesses continued to report difficulty in obtaining bank credit. Declines in asset quality showed further signs of leveling off and, outside of commercial real estate, were expected to improve in 2010. Consumer loan demand increased slightly, with credit card receivables ticking up and low mortgage rates continuing to stimulate mortgage lending. Charge-off and delinquency rates were reported to be better than expected, and several contacts expected to see further improvement in 2010.

Prices/costs. Price pressures increased for raw materials in December. Contacts indicated that lead times were rising as supplier capacity had yet to be fully brought back on-line while foreign and domestic demand continued to improve. Many expected a further round of commodity price increases to ensue in the first quarter of 2010. Recent tax increases were also indicated to be putting pressure on wholesale prices of items like cigarettes and soft drinks. However, pass-through of cost pressures to downstream prices was small on balance, as contacts indicated pricing power remained limited in many industries. Wage pressures were minimal, although union wage increases were noted by some construction contacts as putting additional pressure on costs.

Agriculture. Some farmers still had corn in the field when snows blanketed the ground in December. The weather also prevented much of the normal fall tillage and fertilizer application. Still, corn and soybean yields were above average throughout the District. Furthermore, storage of the crop has not been a problem, since end users, especially ethanol plants, kept buying grain as it was harvested. Even with increased drying costs, corn prices were high enough for returns to approach breakeven; and with soybean prices moving higher, most farmers should more than cover their costs for soybeans. Wheat, milk, and hog prices also increased, whereas corn and cattle prices decreased from the previous reporting period. The reduced number of dairy cows helped boost milk prices. Some small dairy operations or those that raise their own feed were
able to avoid further losses. Smaller dairy producers continued to benefit from government payments that larger producers had tapped out. Hog farms also drew closer to breakeven, but cattle operators faced pressures made worse by very cold temperatures which required the consumption of extra feed.
Summary

Economic conditions in some areas of the Eighth District have shown further signs of improvement since our previous report. In general, manufacturing activity continued to decline while service sector activity increased. Early reports from retailers in the District indicate a slight increase in holiday sales compared with a year ago. Residential real estate markets showed signs of improvement in parts of the District, while commercial real estate market conditions remained weak. Overall lending at a sample of small and mid-sized District banks declined in the three-month period from mid-September to mid-December.

Manufacturing and Other Business Activity

Manufacturing activity has continued to decline since our previous report, with persistent weakness in employment. Although several manufacturers reported plans to open plants and expand operations in the near future, a larger number of contacts reported plans to close plants and lay off employees. Firms in the shoe/apparel, furniture, and appliance manufacturing industries announced plans to relocate production to the District. A firm in wood product manufacturing also announced plans to hire additional workers to launch a new product. In contrast, contacts in the electrical components; chemical product; construction materials; machinery; heating, ventilation, and air conditioning; and auto manufacturing industries announced plans to lay off workers, often citing weak product demand.

The District’s service sector continued to expand in most areas. Contacts in business support services, leisure/hospitality services, and medical services announced...
plans to hire new workers. A firm in business support services also announced plans to lift a wage freeze and to reinstate benefits. Early reports from contacts in the retail sector generally expressed optimism about increased holiday sales. One contact also noted that small to mid-sized retailers are adding stores to gain long-term market share.

**Real Estate and Construction**

Residential real estate markets are showing signs of improvement in parts of the Eighth District. Compared with the same period in 2008, November 2009 year-to-date home sales were up 1 percent in St. Louis and held steady in Louisville. Over the same period, year-to-date home sales were down 3 percent in Little Rock and 10 percent in Memphis. Residential construction continued to be weak throughout most of the District. November 2009 year-to-date single-family housing permits fell in most District metro areas compared with the same period in 2008. Permits declined 6 percent in Little Rock, 16 percent in St. Louis, 18 percent in Louisville, and 36 percent in Memphis.

Commercial and industrial real estate market conditions remained weak throughout most of the District. A contact in St. Louis noted that commercial real estate has stalled. A contact in Memphis noted that the focus now is on retaining tenants rather than recruiting new ones. A contact in south-central Kentucky reported that while commercial construction is relatively strong, it consists mainly of education-related projects. Industrial real estate and construction contacts throughout the District also reported a sluggish environment. A contact in Memphis does not expect the industrial real estate market to improve until signs of a more sustainable recovery are evident.
Banking and Finance

Total loans outstanding at a sample of small and mid-sized District banks decreased 2.1 percent in the three-month period from mid-September to mid-December. Real estate lending, which accounts for 73.5 percent of total loans, decreased 1.6 percent. Commercial and industrial loans, accounting for 16.5 percent of total loans, decreased 3.5 percent. Loans to individuals, accounting for 5.3 percent of loans, decreased 2.2 percent. All other loans decreased 4.0 percent and accounted for 4.7 percent of total loans. Over this period, total deposits increased 2.0 percent.

Agriculture and Natural Resources

As of mid-December, year-to-date bales of cotton ginned (separated from the seed) in the District states were down by 31 percent over the same period in 2008. Arkansas had 36 percent fewer bales ginned than the previous year, Mississippi had 40 percent fewer, Missouri had 29 percent fewer, and Tennessee had 10 percent fewer. In November, total commercial red meat production in District states was 2 percent higher compared with year-earlier levels, but year-to-date production was 1 percent lower compared with year-earlier levels. Also, the total weight of young chickens slaughtered was 3 percent higher than the previous November, but year-to-date totals were 7 percent lower. Total coal production in District states in December was 4 percent lower than the previous December, while total coal production in 2009 was 4 percent higher than in 2008.
NINTH DISTRICT--MINNEAPOLIS

Overall economic activity in the Ninth District grew tepidly since the last report. Consumer spending, tourism, energy, mining and residential construction and real estate saw modest increases. Manufacturing and services were mixed, while commercial construction was stable. Decreases in activity occurred in agriculture. Labor markets remained weak, but the pace of job losses has slowed. Meanwhile, wage increases were modest, and overall prices remained flat.

Consumer Spending and Tourism

Consumer spending increased modestly. A representative of a Minneapolis area mall expected holiday sales to finish 2.5 percent higher than a year ago, while a manager at another Minneapolis area mall noted that holiday traffic was relatively heavy and that store owners were generally pleased. Bank directors reported that holiday sales during December were soft in western South Dakota, but up somewhat in North Dakota. Brisk retail activity was reported in central Montana the day after Christmas. Larger retailers noted an increase in Internet sales during the holiday shopping season.

A Minnesota auto dealer noted that November and December sales were up from a year ago. Meanwhile, a representative of an auto dealers association in North Dakota reported that recent vehicle sales were generally soft.

Winter tourism activity was up from a year ago. Tourism activity increased in northwestern Wisconsin due to excellent snow conditions for snowmobiling and skiing. In western South Dakota, winter sports have also benefited from a deep snow cover; a local tourism official noted strong numbers of vehicles with snowmobile trailers and ski racks. A Minnesota ski resort reported that activity picked up during the holidays; advanced bookings were about on par with a year ago.

Construction and Real Estate

Commercial construction was flat at low levels. A commercial builder in the Minneapolis-St. Paul area said that recent activity was very slow, but the builder expected more projects to bid on in the first part of 2010. Residential construction increased across most of the District. The number of residential permits in November was up compared with a year ago in Sioux Falls, SD., Fargo, ND., Rochester, Minn., and in the Minneapolis-St. Paul area.
Commercial real estate markets saw a slight uptick from very low levels of activity. The value of commercial properties sold in Minnesota increased in November from October. However, recent vacancy rates for many commercial real estate sectors were higher than a year ago across most of the District. Meanwhile, residential market activity increased in November. The dollar volume of closed sales in Minnesota increased nearly 46 percent in November from a year earlier as first-time home buyers took advantage of federal tax credits.

**Services**

Overall activity was mixed in the professional business services sector. A Minnesota-based travel services firm shut down due to decreased demand. A health care provider noted that people deciding on elective surgery are asking for limited procedures at reduced cost. However, an environmental engineering firm noted solid orders.

**Manufacturing**

Manufacturing output was mixed. A December survey of purchasing managers by Creighton University (Omaha, Neb.) showed that manufacturing activity increased in Minnesota and decreased in the Dakotas. This survey showed strong new orders in Minnesota and South Dakota, but decreased new orders in North Dakota. In South Dakota, a pipe maker plans to open a production facility, but a trailer manufacturer shut down.

**Energy and Mining**

Activity in the energy and mining sectors increased slightly. Mid-December oil and gas exploration increased from mid-November. A proposed large-scale wind energy project was recently announced for eastern South Dakota. Meanwhile, late December prices for copper, platinum and nickel increased from mid-November, which aided the profitability of Montana mines. An iron ore mine plans to restart a production line in early 2010, but output at iron ore mines in Minnesota dropped about 5 percent in November from October.

**Agriculture**

Agricultural activity declined. The wet fall caused farmers to incur extra drying expenses, and some shortages of propane were noted. A portion of the corn crop will have to be harvested in the spring because winter storms halted the already late harvest; this may
constrain overall production from expected high levels. The heavy winter storms put stress on some cattle herds.

**Employment, Wages and Prices**

Labor markets remained weak, but the pace of job losses has slowed. While employment levels are lower than a year ago, employment increased slightly in November from a month earlier in Minnesota and the Dakotas. Nevertheless, some layoffs were announced. In Montana a paper mill will close, affecting over 400 workers. In Minnesota a call center closure will eliminate about 60 jobs, and an information management firm will cut 120 positions. In contrast, a financial services firm announced plans to add 50 to 75 jobs in South Dakota. According to respondents to a recent St. Cloud (Minn.) Area Business Outlook Survey, 19 percent expect to increase employment at their companies over the next six months, while 15 percent expect decreases.

Wages generally remained level or rose modestly, and this trend may continue. For example, wages for most employees at the University of Montana will be frozen for the next two years. Of the respondents to the aforementioned St. Cloud survey, 19 percent plan to increase wages and benefits over the next six months, while 6 percent plan decreases.

Prices generally remained flat since the last report. For example, recent Minnesota gasoline and fertilizer prices are about level with mid-November. However, natural gas and some metal component prices have increased since the last report.
TENTH DISTRICT - KANSAS CITY

The Tenth District economy expanded more modestly in late November and December than in the previous survey period. Overall holiday consumer spending was little changed from a year ago, but sales in some areas were hampered by extremely bad year-end weather. Growth in manufacturing activity moderated from the previous survey, and businesses’ capital spending plans remained modest. The rebound in residential real estate lost some steam, and commercial construction activity weakened further. Bank loan demand remained sluggish, and overall loan quality was poor. By contrast, energy activity continued to rise from low levels, and agricultural conditions improved. Price pressures were limited, and wage pressures remained low due to weakness in the labor market.

**Consumer Spending.** Consumer spending growth softened somewhat from the previous survey. Overall, holiday retail sales were little changed from a year ago. Some contacts reported slight increases from a year ago, but extremely bad weather limited holiday sales in other areas. Store managers generally reported stronger sales of discounted items and winter gear, while sales of luxury items such as jewelry were relatively weak. Store inventories were up slightly, but most contacts expected a decrease in the months ahead. Restaurant traffic edged up marginally from the previous period, and expectations were more positive. Auto sales dropped after steadying in the previous survey, though most dealers expected some improvement in future months. Auto inventories were still fairly high and expected to rise, and some contacts noted continued difficulties obtaining customer financing. Travel and tourism activity weakened further, with one contact noting considerably less business travel. Nearly all tourism contacts expected a continued slowdown in activity.

**Manufacturing and Other Business Activity.** Growth in manufacturing activity moderated somewhat in late November and December, while other business activity was mixed. Overall growth in factory production slowed, while employment
remained essentially flat. Plant managers also reported smaller gains in shipments and new orders. Expectations for future factory activity were slightly less optimistic than in previous surveys, but factory output was still expected to rise moderately in the first half of 2010. Transportation services activity slowed slightly in late November and December, but contacts expressed more optimism about future months. High-tech services firms reported mostly favorable business conditions and were generally positive about the months ahead. Despite generally positive outlooks, businesses’ capital spending plans – especially among manufacturers – were fairly modest for 2010, as considerable excess capacity remains. Still, some business spending was occurring to replace outdated IT and other equipment.

**Real Estate and Construction.** Residential real estate activity eased somewhat after a rebound in the previous survey, and the downturn in commercial real estate activity continued. Housing starts dampened slightly, as several builders noted continued financing difficulties, but expectations improved from the previous survey. Home sales also eased from the previous survey, but levels were higher than a year ago and expectations strengthened due to the renewed homebuyer tax credit. Sales were strongest in the low-end market, with continued weak demand for higher-priced homes. Several real estate agents reported sales were limited by tighter credit restrictions and appraisal guidelines. Mortgage lenders reported that overall mortgage activity edged down slightly from last month, with fewer home purchase and refinancing loans. Commercial real estate activity continued to deteriorate across the District, with few improvements expected in the near future. Vacancy rates continued to rise, and prices and rents declined further. Construction supply firms reported especially weak sales, which most contacts attributed to a slowdown in lending and weak commercial construction activity.

**Banking.** Bankers reported weaker loan demand, stable deposits, and a continued negative outlook for loan quality. Overall loan demand declined at a somewhat faster pace than in the previous two surveys. Demand fell moderately for both commercial and industrial loans and commercial real estate loans. In addition, demand for residential real
estate loans and consumer installment loans edged down. A few banks tightened credit standards on commercial real estate loans. As in the previous survey, however, credit standards for other loan categories were little changed. When asked about the cause of the continued weakness in bank lending, two-thirds of respondents cited weak demand from creditworthy borrowers, and some banks mentioned pressure from regulators. Almost all respondents reported lower loan quality than a year ago, and about a third expected loan quality to decline further in the next six months. Deposits were essentially unchanged, following several months of steady growth.

**Energy.** Energy activity was up modestly from the previous survey, but remained below year-ago levels. Most contacts reported an increase in drilling activity and were optimistic about the months ahead, as crude oil prices remained relatively high and natural gas prices finally turned upward. With natural gas inventories still at historically high levels, however, some producers worried that gas prices might fall if recent cold winter weather across the country did not continue. Most energy firms expected their capital expenditures to increase or remain unchanged over the next twelve months, with very few planning decreases.

**Agriculture.** Agricultural conditions improved since the last survey period. Farmers enjoyed above average corn and soybean yields, especially in Nebraska and Kansas. Despite planting delays, the winter wheat crop was progressing normally and was reported in good condition with ample snow cover. The post-harvest rise in corn and soybean prices spurred strong marketing opportunities and higher incomes for farmers. Livestock prices moved higher, narrowing losses for producers. Cattle feeding enterprises were operating at breakeven levels, but dairy and hog operations still faced significant losses. District contacts reported that farmland values firmed in the fourth quarter amid robust demand for good quality farmland and a limited number of farms for sale.

**Wages and Prices.** Price pressures were modest, and wage pressures remained limited due to weak labor markets. Manufacturers reported mostly stable prices, but
some noted lower profit margins due to rising commodity prices and little ability to pass through. Overall retail prices continued their downward trend, and most contacts expected prices to fall further in coming months. However, builders and transportation firms reported a slight uptick in input prices. Almost no firms reported labor shortages, resulting in little if any wage pressures. Hiring plans at many firms also remained minimal, which some firms attributed to uncertainty surrounding future employee health care costs.
Overview  Economic conditions in the Eleventh District continued to firm up over the past six weeks. Contacts in several industries, most notably retail, high-tech manufacturing and staffing services, reported improved demand. While conditions appeared to be recovering in many sectors and outlooks were becoming more positive, most contacts only expected a slow and modest improvement in the near term.

Prices  Price pressures were generally subdued, with a few exceptions. Intermodal firms continued to drop prices to attract new customers, and legal, staffing and accounting service firms noted ongoing pressure to discount fees. Pricing of construction-related materials remained very competitive. In contrast, staffing firms said that a large increase in the state unemployment insurance tax in January 2010 will significantly raise costs and squeeze margins as pass-through to clients has been mixed. Airlines noted that fares were stabilizing, and retailers said prices were reverting back to relatively normal levels. Paper and corrugated-box manufacturers reported rising raw material costs and an uptick in selling prices. There were also reports of slight increases in crop and industrial metal prices.

Crude oil prices briefly fell below $70 during the reporting period, but have climbed back up to near $80. These gains have been driven by improved economic data, longer-term dollar weakness, and conflicts involving Russia, Iran and Nigeria. Contacts noted that proposed price increases for polyethylene and polypropylene did not stick in December. Prices of other chemical products were stable. Despite recent increases in natural gas prices due to cold weather, contacts said high inventories, weak industrial demand and rising production point to continued weakness in natural gas markets.

Labor Market  Most respondents noted stable employment levels. Still, a few construction-related manufacturing firms continued to report payroll declines. Contacts in the energy industry reported that several firms had announced plans to reorganize operations and move a large number of professional jobs overseas. On a positive note, an aircraft components manufacturer noted an uptick in staff levels, and a primary metals manufacturer reported an increase in work hours. Retailers said holiday hiring was reasonable.

Wage pressures were mostly nonexistent but a handful of firms said they planned on giving small pay increases next year. Although employer matches to 401(k) plans remained suspended at most firms, one company reported plans to partially reinstate employer contributions to retirement plans.
Manufacturing  Construction-related manufacturers reported continued weakness in demand. Most contacts say there is excess capacity in the industry, and capital spending plans are on hold except for maintenance-related projects. The outlook remains bleak, especially for manufacturers tied to commercial construction. Fabricated metals producers noted no change in demand.

Contacts in high-tech manufacturing report orders and sales continue to grow at a moderate to strong pace, partly due to continued improvement in the world economy. One respondent noted that Windows 7 was helping personal computer sales, and that demand for smart phones and laptops was increasing strongly. Inventories remain very lean but at desired levels. The outlook is for continued moderate to strong growth over the next six months.

Reports from transportation manufacturers were mixed. Aircraft components manufacturers reported a seasonal decline in demand, but remained positive in their outlook for next year. Manufacturers of emergency vehicles noted a slowdown in the pace of orders, and added that thinning backlogs were pointing to a potential slowdown in business around mid-2010. Demand for corrugated packaging continued to improve, and outlooks for 2010 were optimistic. Food producers reported a seasonal pickup in demand.

Demand for petrochemicals was little changed. Modest gains in domestic demand continued but growth in exports slowed somewhat. Contacts say with new petrochemical facilities coming on line in the Middle East, processors are holding back on building inventories until they see the effect of these new facilities on U.S. exports.

Retail  Retail activity increased during the reporting period, and retailers said that the holiday season was shaping up to be a reasonable one. Discount stores reported an uptick in demand for non-food items, with sales of electronics and household goods faring better than expected. Department store sales were also ahead of expectations. Still, discounting was prevalent as consumers remained price-conscious. The outlook is cautiously optimistic, with contacts expecting a slow recovery in business.

Automobile sales held steady over the past six weeks. Contacts say the worst has passed, and they expect demand to remain flat in the near term.

Services  Staffing firms said demand for contract work continued to improve but orders for direct hires were flat at low levels. Although orders were widespread across sectors, demand was strongest for call center, clerical, healthcare administrative and manufacturing staff. Demand for legal services remains depressed, but contacts noted a slight uptick in inquiries from clients on merger and acquisition-related services. Accounting firms reported steady demand for their services.
Reports from transportation service firms were mixed. Intermodal firms reported no improvement in cargo volumes over the past month as imports have dropped and exports are not picking up as expected. Small parcel shipping and large freight volumes increased further, continuing a trend that began in the summer. Contacts in railroad transportation noted continued declines in cargo volumes as increases in grain, chemicals, petroleum products and automobile shipments were more than offset by declines in shipments of coal, pulp, paper, lumber, wood, crushed stone and metals. Airline demand appears to be recovering, fares are stabilizing, and contacts note that the outlook is slightly brighter for 2010.

Construction and Real Estate  New and existing home sales rose over the past six weeks. Homebuilders said that while overall starts remained at low levels, the momentum from the homebuyer tax credit was helping demand, especially in the entry-level segment. Prices continued to firm. Several contacts said smaller builders were still unable to access credit to finance new construction. Outlooks were guarded but optimistic.

Conditions in the apartment sector were weak, as occupancy rates continue to fall and rents are edging down. Elevated construction activity has led to an oversupply of apartments, although contacts say activity will slow in the near term. Outlooks are modestly optimistic. Respondents expect a recovery in most of the major Texas markets in 2010.

Office and industrial leasing activity remained feeble. Contacts said “nothing is going on and business is very slow.” There is still some concern over how commercial real estate loans will be worked out as they come due, given the decline in collateral value. Investor interest continues to rise, however, with one respondent reporting a significant increase in the number of bids for properties on sale.

Financial Services  Loan demand remained soft. Commercial real estate lending was scarce, and community banks continued to curtail residential real estate lending due to tough regulatory requirements. Loan pricing was slowly returning back to “normal,” as some contacts have removed pricing floors or returned to original base rates such as prime. Deposit growth was steady but credit quality continued to deteriorate. Despite weak conditions, contacts at most financial services firms—excluding those that failed—said they have managed to end the year with flat or very modest growth in loan volumes. The primary concern among most contacts is still the uncertainty surrounding impending regulation. The outlook remained cautious and most contacts said they did not expect any significant improvement until at least fourth quarter of 2010.

Energy  The rig count continued to rise over the past six weeks. Current oil prices are driving up most types of oil-directed drilling activity. The increase in shale-based natural gas
drilling, however, remains focused in a few areas, with some traditional gas-bearing regions continuing to see consolidation and downsizing.

**Agriculture** Rainfall continues to boost agricultural conditions across the state. Farmers have been able to plant the winter wheat crop into moist soil. Nearly all crops have been harvested, and the crop outlook for 2010 has improved. Although drought conditions have been alleviated, the dry spell has tightened producers’ cash flow and contacts say delayed disaster payments may prevent some farmers from planting the next round of crops.
TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District appeared to pick up slightly during the reporting period of December through the beginning of January. Upward pressures on prices were quite modest, and upward pressures on wages were virtually nonexistent, despite sustained productivity gains in some sectors. Holiday season retail sales were up from the preceding year but were slow compared with prior years, while demand for services remained weak on net. Manufacturing activity continued at very low levels for some product lines but appeared to improve further on balance. Agricultural producers reported solid sales, while demand was mixed for providers of energy resources. Conditions in housing markets appeared to be largely stable, but demand for commercial real estate continued to deteriorate. Contacts from financial institutions reported mostly stable loan demand and further declines in credit quality.

Wages and Prices

Upward price pressures were quite limited during the reporting period. Commodity prices in general were stable, although contacts noted increases for selected commodities such as natural gas, aluminum, and zinc. Substantial discounting continued to hold down final prices for a variety of retail items, and persistently weak demand further reduced the prices for various services, notably lodging and professional services.

Upward wage pressures were largely absent, as compensation gains were held down by high unemployment and limited hiring in most sectors and regions. The majority of contacts expect that the pace of productivity improvements achieved in their respective industries over the past year will continue in 2010; they therefore expect hiring to remain subdued for a prolonged period, even if product demand improves.

Retail Trade and Services

Retail sales improved modestly but remained somewhat weak on net. Discount chains and traditional department stores alike reported that holiday season sales were up slightly
compared with 2008, although contacts in general cautioned that sales were still well below the
levels recorded in 2007 and prior years. Consumers continued to emphasize necessities and
lower-priced options for many types of consumer goods. However, further demand
improvements were noted for some nonessential and higher-priced items, including furniture and
household appliances. Sales of new automobiles remained very weak overall, although
improvements in demand were noted for larger vehicles such as SUVs. Sales of used
automobiles strengthened, reportedly spurred in part by price declines arising from increased
supplies of formerly leased or rented vehicles.

Demand for services continued to be weak overall. Sales slid further for providers of
professional services, notably advertising and accounting, and providers of real estate services
such as title insurance reported that activity was largely stable at low levels. By contrast,
providers of health-care services reported improved demand and increased patient volumes
during the reporting period. Travel and tourism activity in the District was mixed: contacts in
Southern California and Seattle noted that occupancy rates were down, while contacts in Hawaii
and Las Vegas pointed to further improvements in visitor volumes. Activity was especially
sluggish in the business travel segment of the market, which continued to place downward
pressure on airline passenger volumes and traffic.

Manufacturing

District manufacturing activity was mixed but showed modest improvement on net
during the reporting period of December through the beginning of January. Manufacturers of
semiconductors reported further strengthening in demand, with rising sales and balanced
inventories noted. Makers of commercial aircraft and parts saw limited new orders, but an
existing order backlog combined with a decline in delivery deferrals kept production activity
largely stable at moderate levels. By contrast, production activity remained at extremely low
levels for metal fabricators, for whom demand has been very weak for an extended period.
Manufacturers of housing products such as windows and doors also reported that new orders
remained very low, causing them to keep inventories unusually lean. Similarly, production activity at petroleum refineries remained well below the five-year average as producers attempted to reduce excess inventories.

**Agriculture and Resource-related Industries**

Demand for agricultural products was solid, with further sales gains noted, while demand was mixed for extractors of natural resources used for energy production. Sales expanded for assorted crops, and inputs remained readily available with generally stable prices noted. The lower exchange value of the dollar caused overall demand and prices to rise for selected commodities with extensive overseas markets, such as cotton. Oil extraction activity remained at low levels as the price of oil slid a bit. By contrast, demand for natural gas rose in response to the onset of cold winter weather in much of the District, prompting reactivation of some dormant wells.

**Real Estate and Construction**

Demand for housing appeared to be largely stable, while demand for commercial real estate eroded further. After accounting for normal seasonal variation, the pace of home sales was mixed across areas but appeared little changed on net compared with the previous reporting period; contacts noted that low mortgage interest rates helped to sustain sales in general. However, an extensive supply of foreclosed properties in some areas caused inventories to remain somewhat elevated, which in turn has restrained the pace of new home construction. Demand weakened further for commercial real estate, with vacancy rates for office and industrial space rising further in many parts of the District. However, one contact in the Pacific Northwest noted that the market may be approaching a bottom, citing an increase in leasing activity in response to favorable terms for tenants.

**Financial Institutions**

District banking contacts reported that loan demand was largely stable compared with the prior reporting period, while credit quality declined further. Demand for commercial and
industrial loans continued to be restrained by businesses’ uncertainty about the economic environment and resulting caution in their capital spending plans. Demand for consumer loans also was characterized as largely unchanged at low levels. Contacts reported additional loan losses and continued tight standards for business and consumer lending. Further small improvements in venture capital funding and IPO activity were noted.