The Federal Reserve Board

January 16, 2008

Summary of Commentaries on Current Economic Conditions

By Federal Reserve Districts

Summary

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Reports in the Federal Reserve Bank of Atlanta and much of southeastern and Gulf States District 6, Dallas, and Minneapolis districts indicate that economic activity has been expanding at a moderate pace. Manufacturing activity in several districts continued to expand, while activity in the Boston District was described as flat.

Most reports on retail activity indicated subdued holiday spending, and further weakness in automotive sales was noted in several districts. Contacts in the Boston District described holiday sales as disappointing, while reports in the Philadelphia District described sales as generally weak. Contacts in the Richmond District reported that sales were slightly below expectations, while those in the Atlanta District described sales as soft. Retailers in the Chicago District reported that sales were flat to down slightly, and those in the Dallas District described sales as mixed. Contacts in the Minneapolis District reported that sales were slightly above expectations.

Reports on manufacturing were mixed. Boston contacts described manufacturing activity as flat, while Philadelphia and Richmond districts reported that activity continued to expand. Manufacturing activity was described as moderate in the Atlanta District and as mixed in the Chicago District. Dallas and Minneapolis districts reported that manufacturing activity was up slightly.

Reports on nonfinancial services were generally weak. Activity slowed from the Philadelphia District to the Dallas District, and contacts in the Minneapolis District described activity as flat. Reports from the Boston, Richmond, and Atlanta districts indicated that activity was mixed.

Reports on banking and finance were mixed. Contacts in the Boston and Richmond districts described lending activity as moderate, while contacts in the Atlanta District described lending as subdued. Reports from the Philadelphia, Chicago, and Dallas districts indicated that lending activity was down slightly. Contacts in the Minneapolis District described lending as flat.

Reports on real estate activity were mixed. Activity was described as weak in the Boston, Atlanta, Chicago, and Dallas districts. Contacts in the Philadelphia District described activity as slow to moderate, while those in the Richmond District described activity as moderate. Reports from the Minneapolis District indicated that activity was flat.

Reports on agriculture were generally positive. Contacts in the Atlanta, Chicago, and Minneapolis districts described activity as strong. Activity was described as moderate in the Dallas District. Reports from the Boston and Richmond districts indicated that activity was mixed.

Reports on energy activity were mixed. Contacts in the Boston, Richmond, and Dallas districts described activity as strong. Activity was described as moderate in the Atlanta District. Reports from the Chicago and Minneapolis districts indicated that activity was down slightly.

Reports on prices were mixed. Contacts in the Boston, Richmond, and Atlanta districts described price increases as moderate. Prices were described as increasing slightly in the Chicago and Dallas districts. Contacts in the Minneapolis District reported that prices were flat.

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First District--Boston

Contacts in the First District reported economic conditions remained flat to slightly weaker. Retail and wholesale trade declined. Residential and nonresidential construction and home sales softened, while commercial real estate activity remained steady. Professional and business services declined. Manufacturing activity continued to contract. Tourism was described as slightly weaker than last year. Banks reported that loan demand was down, and credit standards tightened. Contacts expressed concern about the economic outlook, and most reported that they were not optimistic about the near future.

Retail and Construction

Retail sales were described as disappointing over the holiday season. Contacts reported that sales declined in the weeks before the holidays, and that the holiday season was generally weak. Sales of consumer electronics were reported to be particularly soft. Auto sales declined. Contacts in the Cape Cod area reported that the summer season was disappointing. Residential real estate activity remained weak, and contacts reported that the inventory of unsold homes was increasing. Nonresidential construction activity was described as steady to slightly weaker.

Manufacturing

Manufacturing activity remained flat to slightly weaker. Contacts reported that the fourth quarter was generally weaker than expected. Demand for computer and communications equipment declined, while demand for medical devices was described as steady. Demand for semiconductors was reported to be mixed. Contacts reported that the dollar's decline against the euro and the Canadian dollar was helping exports, but that the dollar's decline against the yen was hurting exports. Contacts in the machinery industry reported that demand was soft, and that the dollar's decline was hurting exports. Contacts in the paper industry reported that demand was soft.

Banking and Finance

Contacts reported that business and consumer lending activity declined slightly. Business loan and loan origination through December. Residential mortgage lending continued to contract sharply. Contacts reported that credit standards had tightened. Delinquencies on residential mortgages increased, and delinquencies on commercial mortgages remained low. Contacts reported that the cost of funds had declined. Deposit growth was described as moderate. Contacts reported that the dollar's decline against the euro was hurting the banks' profitability. Contacts reported that they were not optimistic about the near future.

Prices and Wages

Contacts reported that prices increased at a moderate pace. Prices increased for energy, food, and healthcare through December. Residential mortgage lending continued to contract sharply. Contacts reported that credit standards had tightened. Delinquencies on residential mortgages increased, and delinquencies on commercial mortgages remained low. Contacts reported that the cost of funds had declined. Deposit growth was described as moderate. Contacts reported that the dollar's decline against the euro was hurting the banks' profitability. Contacts reported that they were not optimistic about the near future.

Agriculture and Natural Resources

Reports on agriculture were generally positive. Contacts in the Boston, Richmond, Atlanta, Chicago, Minneapolis, and Dallas districts described activity as strong. Activity was described as moderate in the Dallas District. Reports from the Boston and Richmond districts indicated that activity was mixed. Contacts reported that the dollar's decline against the euro and the Canadian dollar was helping exports, but that the dollar's decline against the yen was hurting exports. Contacts in the machinery industry reported that demand was soft, and that the dollar's decline was hurting exports. Contacts in the paper industry reported that demand was soft.

Activity in the energy sector increased according to the Atlanta, Dallas, Kansas City, and Minneapolis districts. Activity was described as strong in the Boston and Richmond districts. Activity was described as down in the Chicago and Dallas districts. Reports from the Boston and Richmond districts indicated that activity was mixed. Contacts reported that the dollar's decline against the euro and the Canadian dollar was helping exports, but that the dollar's decline against the yen was hurting exports. Contacts in the machinery industry reported that demand was soft, and that the dollar's decline was hurting exports. Contacts in the paper industry reported that demand was soft.

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Retail

Retail and wholesale report mixed sales results for the months of November and December. Contacts in the business services say business has declined. Contacts in the Cape Cod area reported sales. Many retailers report strong sales in the week after the Christmas holiday. Contacts in the Boston area reported that sales were slightly above expectations. Contacts in the Cape Cod area reported that sales were generally not affected as the weather cooperated.

Inventory levels are mixed, but several contacts note they are higher than expected because of weaker sales. Contacts in the Boston area reported that inventory levels are in line with expectations. Contacts in the Cape Cod area reported that inventory levels are higher than expected because of weaker sales. Many retailers report strong sales in the week after the Christmas holiday. Contacts in the Boston area reported that sales were slightly above expectations. Contacts in the Cape Cod area reported that sales were generally not affected as the weather cooperated.

Overall, retail respondents are cautious in their outlook and expect early 2008 to be challenging. Contacts in the Boston area reported that they are optimistic about the near future. Contacts in the Cape Cod area reported that they are not optimistic about the near future. Contacts in the Boston area reported that they are optimistic about the near future. Contacts in the Cape Cod area reported that they are not optimistic about the near future.

Manufacturing

Manufacturers and contacts in several other industries reported to the First District Federal Reserve Bank that business activity remained flat to slightly weaker in the fourth quarter. Sales of recorded equipment and pharmaceuticals continue to grow at a robust rate. Contacts in the Boston area reported that business activity remained flat to slightly weaker in the fourth quarter. Contacts in the Cape Cod area reported that business activity remained flat to slightly weaker in the fourth quarter. Contacts in the Boston area reported that business activity remained flat to slightly weaker in the fourth quarter. Contacts in the Cape Cod area reported that business activity remained flat to slightly weaker in the fourth quarter.

Activity declined but conditions in commercial markets in the District were largely unchanged from the last report, with activity described as pleasant to busy this month. Developers continued to note a decline in the backlogs of construction projects.

Manufacturing and Transportation

Manufacturers in the Eighth District reported that May and January producers reported strong demand, particularly from China. Contacts observed that the steel industry was performing well, and manufacturers of heavy equipment reported increased activity. Activity in the transportation sector of residential housing related goods continued to ease, very weak demand. Manufacturers noted that many District manufacturing firms in several industries were expanding export activity.

Energy and Natural Resources

Activity in the energy and mining sectors increased since the last report. Strong oil and gas activity in both Eastern Kentucky and Southern Illinois was described as pleasant to busy, with contacts reporting increased exploration and construction in the region. Crude and heating oil production remained strong.

Banking and Finance

Contacts in the banking sector reported reduced credit availability and stricter lending standards for commercial real estate loans. Commercial real estate loans were described as unavailable or under pressure in the fourth quarter, partly because of the greatly reduced volume of real estate funding. In addition, data from purchasers were rising because of anticipated increases in capital gains taxes and estate taxes in 2013. Contacts reported that commercial real estate appraisals were also down in the commercial real estate market. Credit card lending remained strong, and contacts reported that delinquencies were low.

Employment and Prices

The demand for workers in some sectors continued to be quite strong through the end of the second quarter, with reports of shortages in the healthcare, transportation, and energy sectors, while engineers, particularly in petrochemical fields, were in high demand. Manufacturers reported that the cost of labor was rising, and that the cost of employee benefits was increasing. Housing-related industries continued to post gains.

Food, petrochemical and energy-related input prices continued to increase, according to most contacts. Prices for agricultural products declined, with the exception of livestock prices. Delivery costs for most products were reportedly up because of higher fuel costs. Some firms mentioned rising metal costs, especially nickel and steel. Input costs continue to increase for most manufacturers, and many firms reported that they were unable to pass on the higher costs to their customers and their producers reported modest prices.

Agriculture and Natural Resources

Activity in the agriculture sector was quiet to drought-stricken across in the District, but generous, Contacts reported excessive dry soil. Pasture and ranchers may realize activity in farm lease because of the agriculture in the District throughout events. Florida officials reported that the drought conditions in the state have worsened considerably in recent weeks and that, since the reported that end of the commencement of the drought, the number of fires has increased by 50 percent. Some contacts noted that the losses incurred was weaker than normal because of farmers' use of irrigation systems.

Gulf Coast crude oil inventories declined further in December and reached their lowest level in three years. Production began at a large new platform, located off the coast of Louisiana, that is expected to produce as much as 100,000 barrels of oil and 100 million cubic feet of natural gas per day during 2008.

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Seventh District--Chicago

Economic activity in the Seventh District continued to expand at a slow pace in December and early January. Consumer spending was mixed, and business spending plans were merely modest. Activity in the housing sector remained depressed. Prices rose at a faster pace over the last few months, and factories boosted production considerably in January and December. Employment was little changed on balance. Lending to consumers and businesses was restrained, and lending standards tightened further. Commercial real estate activity was subdued. Farm prices rose from the previous quarter while wage increases moderated. Pastures planted in plant were soybeans and less corn this spring, and soybean and corn prices both continued to move higher.

Consumer Spending

Consumer spending continued to be mixed, with slower retail sales in some areas of the District and faster sales in others. Auto sales were little changed, on net, over the last few months, running modest and rising several percent. Sales of luxury items, motor accessories, and building materials were reported to be soft, while sales of apparel, furniture, and home and clothing sales were weaker. Auto dealers in the District reported mixed results and thought that inventories were about right following a reduction in production in the fourth quarter. On net, they also reported that end of the commencement rebates and incentives had been stronger than sales of passenger cars and snowmobiles. Auto inventories continued to decline in most areas. Sales of heavy trucks were reported to be soft. Tourism was generally described as weak, but contacts noted that tourists toward was weaker than normal because of unseasonably warm weather.

Business spending

Overall, the pace of business spending was little changed from the last reporting period. A majority of contacts reported that capital spending plans were unchanged, while the rest of profit margins and executive over those leases from and plans leases would likely save their capital spending plans. Spending plans were reported to be mixed across sectors in the District. The manufacturing and construction sectors showed the largest declines in employment, and some weakness was reported in retail trade and financial services. However, staffing firms reported that demand for temporary workers, but the need for direct hire positions remained strong. Some contacts noted that they were having difficulty finding workers with the right skills. Wage pressures were reported to be moderate, on net, but there were some reports of sharp increases in wages for workers in short supply. Contacts were mixed about economic conditions in the coming year was limiting the long- term demand for their products.

Construction and Real Estate

Residential construction and home sales in the District declined in December and early January. Contacts reported that inventories of unsold homes remained elevated relative to sales, and new and existing homes sales also continued to be soft, and cancellations of residential construction projects edged up in Illinois, Wisconsin, and Michigan. Residential real estate prices were little changed, on net, over the last few months. Nonresidential building activity was reported to be weakening, contracting sharply in some areas. Vacancy rates for office space and retail space rose further, and rental rates softened. Developers noted that the backlog of new condominium projects was down considerably. Commercial real estate loans were little changed, on net, over the last few months. Credit card lending and consumer installment lending were reported to be soft.

Manufacturing

Manufacturing activity was relatively stable compared with the previous reporting period, and production was little changed, on net, over the last few months. Many manufacturers reported that expected continuing strength in the demand for exports and that the falling dollar would help to support exports. However, some contacts reported that the declining dollar was making it a large part by a moderation in exports. Demand for aircraft and energy extraction and mining equipment continued to be robust, but demand fell further for manufacturers with ties to the housing and automobile industries. Demand for steel was mixed, on net, over the last few months, although new orders have been relatively strong recently. Demand for machine tools was reported to be soft, and demand for metal fabricating products was weak. Demand was also reported to be weak for printing and publishing services, and demand was likely fairly lower representation in employment for parts suppliers.

Banking and Finance

Lending to businesses and households remained tight in December with some tightening reported in early January. Volatility remained a concern among lenders in the real estate market remained tight. Many contacts reported that credit standards and terms were tighter than they had been a few months before were not offers; however, refinancing opportunities remained available. Contacts reported that defaults and delinquencies on mortgages, credit cards, and auto loans were rising. Demand for loans was mixed, on net, over the last few months. Demand for loans to acquire capital or to implement some debt-based pricing as a way to loans banks have quality. Demand for business loans was reported to be soft, on net, over the last few months, with tighter credit standards. However, uncertainty concerning economic conditions in the coming year was limiting the long-term demand for their products. Demand for consumer loans was reported to be generally positive, on competitive both up slowest rates and tighter lending terms continued high. In addition, bankers expressed concern about their further declines in the value of their collateral if the housing recovery might deteriorate further quickly and credit standards.

Prices and Costs

Most contacts reported that input costs rose from the previous reporting period, particularly for energy and food products. Input prices for the rail Contacts generally reported an ability to pass on these higher costs to their customers in the form of higher prices for their own products, where higher wholesale prices were being passed on to consumers. The slowdown in the housing sector was also reported to be leading to lower prices for some products. Retail prices for trade were consistent and retail prices for apparel, furniture, and home and clothing sales were weaker. Auto dealers in the District reported mixed results and thought that inventories were about right following a reduction in production in the fourth quarter. On net, they also reported that end of the commencement rebates and incentives had been stronger than sales of passenger cars and snowmobiles. Auto inventories continued to decline in most areas. Sales of heavy trucks were reported to be soft. Tourism was generally described as weak, but contacts noted that tourists toward was weaker than normal because of unseasonably warm weather. Auto dealers reported that sales of light vehicles remained strong, but sales of heavy trucks were reported to be soft. Auto inventories continued to decline in most areas. Tourism was generally described as weak, but contacts noted that tourists toward was weaker than normal because of unseasonably warm weather.

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Eighth District--St. Louis

Economic activity in the Eighth District expanded modestly since our previous report. Although the services sector continued to grow, reports from manufacturing contacts were mixed, and activity in the construction sector remained depressed. Retail sales, on balance, were positive but weaker than anticipated in recent months. Retail sales declined in December, but sales rebounded in January, with sales of autos leading the way over the same period. Total loans at a sample of small and mid-sized District banks increased slightly in December and January, on net.

Manufacturing and Other Business Activity

A major number of manufacturers reported plans to open plants and expand operations, particularly in the transportation equipment and machinery industries. Many firms noted that, over the past year, gains from productivity growth have outpaced increases in the cost of labor. Some manufacturing industry reported plans to open new facilities, expand operations, and hire workers. Many firms noted that, over the past year, gains from productivity growth have outpaced increases in the cost of labor. Some manufacturing contacts reported plans to hire additional workers. In contrast, contacts in the construction industry reported that activity remained depressed, with ongoing declines in the lay off workers and decrease operations.

The District's services sector continued to expand in most areas; contacts in the financial services industry remained pleasant to lay off workers; however, Contacts said that they expect to increase operations in the months ahead. Activity in the tourist sector was weaker than normal.

Real Estate and Construction

Activity in the construction sector remained depressed in the Eighth District. Compared with the same period a year ago, the November 2007 year-to-date home sales were down in Missouri, Illinois, Indiana, Arkansas, and Kentucky. Nonresidential construction also declined throughout the District. Nonresidential construction also declined throughout the District. Nonresidential construction also declined throughout the District