November 28, 2007

Summary of Commentary on Current Economic Conditions by Federal Reserve District

Summary

Prepared at the Federal Reserve Bank of San Francisco based on information collected on or before November 16, 2007. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Reports from the twelve Federal Reserve Districts suggest that the national economy continued to expand during the survey period of October through mid-November but at a reduced pace compared with the previous survey period. Among Districts, seven reported a slower pace of economic activity while the remainder generally pointed to modest expansion or mixed conditions.

District reports indicated relatively soft retail spending; most retailers said that they were expecting a slow holiday season, with only small gains in sales volumes compared with last year. By contrast, tourist activity expanded further in most Districts. Providers of nonfinancial services to consumers and businesses generally saw continued solid growth in demand, although a few Districts pointed to reduced demand for transportation services. Reports from the manufacturing sector were mixed across Districts and sectors, suggesting little change in activity on net. Producers in the agricultural and natural-resources sectors saw robust demand, with sales of agricultural products spurred in part by rapid growth in export demand. The glut of available homes continued, keeping downward pressure on prices and construction activity. The demand for commercial real estate remained strong in most areas but showed signs of leveling off in some. Reports from banks and other financial institutions suggested slower growth in overall loan demand, with some Districts noting a reduction in the volume of commercial and industrial lending.

Upward pressures on the prices of final goods and services remained modest overall but were significant for products that rely heavily on food and energy inputs. Increases in the costs of energy and selected raw materials pushed up production and transportation costs for firms in various manufacturing and services sectors, although this was offset in part by price declines for lumber and transportation equipment. Food prices remained on an upward trajectory. Outside of products and services that rely heavily on energy and food inputs, final prices were reported to be largely stable or down a bit. Wage increases were moderate in general; upward wage pressures eased in a few areas where labor markets loosened slightly, although they remained strong for assorted groups of skilled workers.

Consumer Spending and Tourism

Reports on retail spending were downbeat in general, with several significant exceptions. Most Districts characterized sales as weak or indicated that they had softened, with a few reporting that the volume of sales had fallen relative to the preceding survey period or a year earlier. However, the Boston, Philadelphia, Minneapolis, and Kansas City Districts highlighted a pickup in retail sales relative to the preceding survey period. Among product categories, several Districts noted continued solid growth in sales of consumer electronics, while a few also noted that demand for luxury goods continued to rise at a healthy pace. By contrast, sales of automobiles and light trucks were flat to down a bit, with contacts from several Districts expecting declines going forward.

Looking ahead, the reports were slightly pessimistic about prospects for the holiday retail season. Most Districts reported that retailers expect growth in retail sales to be modest at best relative to last year, and retailers generally were described as having a "cautious" attitude about the upcoming holiday season. Consistent with this assessment, the Richmond, Dallas, and San Francisco Districts reported early-season price discounting by retailers. In the Boston and Minneapolis Districts, retailers expressed cautious optimism for holiday sales, but they generally expect consumer spending to weaken in 2008. Several reports indicated that retail inventories have risen a bit of late and were higher than desired levels during the survey period.

Activity in the travel and tourism sector generally was at a high level and increased further in some cases. The Richmond, Minneapolis, and Kansas City Districts reported that tourist bookings grew or were above normal seasonal expectations during the survey period, and tourism activity in New York City remained at a high level. The Atlanta District reported that Florida's tourist trade was up, spurred in part by foreign visitors. In contrast, visitor travel and business at major tourist destinations in the San Francisco District, including Hawaii and Southern California, have declined a bit from the high levels established in 2006.

Nonfinancial Services

Reports on nonfinancial services generally were consistent with expanding economic activity, with the primary exception of transportation services. Several Districts pointed to continued strong demand growth for health-care services, while the Richmond, St. Louis, and Minneapolis Districts noted an ongoing expansion for providers of legal and other professional services. The Dallas District reported steady demand for legal services but noted a shift toward litigation related to bankruptcy filings, which may signal a slowing economy. In the San Francisco District, demand for advertising services was held down by weak demand from sellers of automobiles and home furnishings. Providers of temporary staffing services saw strong demand in the Richmond District as well as a pickup from the legal and financial industries in New York City, but demand for temp workers was reported as "sluggish" overall by Dallas.

Available reports on the transportation sector suggest that the level of activity declined somewhat compared with the previous survey period. The Cleveland District reported that trucking volumes were "steady to declining" and that employment has fallen a bit; Dallas noted that overall shipping activity has weakened; and Atlanta reported lower shipping volumes for autos and materials for home construction.

Manufacturing

Manufacturing activity was mixed across subsectors but appeared to be largely stable on balance. Demand remained weak or fell further for machinery and manufactured materials related to home construction, such as lumber and concrete, and automakers have scaled back their production activities this year. By contrast, demand rose solidly for various other types of capital goods, such as non-automotive transportation equipment, information technology products, and machinery used in the agriculture, energy extraction, and mining industries. Chicago reported that steel production increased, in part because of reduced import competition of late, but Cleveland characterized steel shipping volumes as "flat" in that District. Among nondurable products, several Districts noted continued robust demand for food and significant gains for paper and plastics. However, Dallas reported "stable" demand for food and a drop in sales of corrugated boxes, and St. Louis noted that food manufacturers plan to lay off workers in that District. The reports generally indicated that increases in demand were especially strong for products and firms with significant export markets, for which sales have been boosted in part by the lower exchange value of the U.S. dollar.

Reports on capacity utilization suggested that manufacturers on net were operating near long-term average levels, albeit with substantial variation evident across sectors depending on the strength of product demand. The reports also suggested little change in utilization rates during the survey period. A few Districts reported on capital spending by manufacturers and other businesses, noting tentative plans for continued moderate capacity expansion, but with the proviso that actual spending will reflect realized needs as they develop.

Real Estate and Construction

Demand for residential real estate remained quite depressed, with only a few tentative and scattered signs of stabilization amidst the ongoing slowdown. Most Districts pointed to further increases in the inventory of available homes, with the earlier tightening of credit conditions for mortgage lending continuing to create barriers for some buyers. Consequently, prices on new and existing homes sold were reported to be down on a short-term or year-earlier basis in most Districts. The pace of homebuilding remained very low in general, and builders continued to shelve projects and lay off workers in many areas; contacts generally do not expect a significant pickup in homebuilding until well into next year at the earliest. Among scattered positive signs, however, co-op and condo sales in New York City picked up during the survey period, Richmond reported favorable readings on home sales in a few areas, and Kansas City reported that home inventories fell a bit in the Denver metro area. Weak home demand has had mixed effects on conditions in rental markets: Chicago reported that builders' conversions of new homes to rental property put downward pressure on rents, while Dallas noted that demand for apartments picked up, in part because some potential homebuyers are unable to qualify for mortgages.

Demand for commercial, industrial, and retail space generally remained at high levels and expanded further in some areas, although signs of leveling off were evident in several Districts. Vacancy rates on commercial and industrial space remained relatively low in most Districts and declined in some, even where substantial new space has been added of late. Rents have risen accordingly in many areas. In the extreme, New York reported a 30 percent increase in asking rents on Manhattan office space over the past 12 months; however, this represents a smaller increase than in previous surveys, and a recent increase in vacancy rates there is likely to further temper that trend going forward. A few Districts reported emerging signs of declining demand for commercial space: this included assorted indicators of weaker demand in the major metro areas in the Boston District, reduced leasing activity in Philadelphia, commercial construction activity that was described as "flat to down slightly compared with a year ago" in Atlanta, and reduced transactions and rising vacancy rates in some parts of the San Francisco District. Construction of commercial and public buildings and infrastructure projects remained high in most Districts, however, partly offsetting low residential building activity and helping to limit losses in overall construction employment.

Banking and Finance

Lending to businesses generally was at high levels, but the reports suggested a slower rate of growth than in previous survey periods. Commercial and industrial lending activity changed little or declined in the Cleveland, Atlanta, St. Louis, Kansas City, and San Francisco Districts, although it increased noticeably in the Philadelphia District and continued to show modest growth according to Chicago. Lending standards for construction projects and commercial real estate transactions tightened further in the New York and St. Louis Districts, and they remained tight more generally and reportedly held down the volume of lending for these categories in the Boston District. The reports indicated slight increases in delinquencies on commercial and industrial loans and slightly larger increases for commercial mortgages in many areas.

Consumer lending was little changed on net, while residential mortgage lending continued its downward slide. More stringent credit conditions remained a constraint for residential mortgage lending in general, with additional tightening during the survey period reported by Chicago, Kansas City, and Dallas; scattered reports suggested slightly stricter standards on consumer loans as well. Mortgage delinquencies increased significantly in many areas, and some Districts pointed to slight deterioration in credit quality for consumer loans.

Agriculture and Natural Resources

Most Districts reported strong demand for agricultural products and favorable production conditions, with the primary exception of an ongoing drought in the Richmond and Atlanta Districts. Demand and sales were reported to be quite strong for a wide variety of tree and row crops, dairy products, and livestock. Several Districts noted that the rise in overall demand has been propelled in part by the lower exchange value of the U.S. dollar, which has spurred strong increases in export sales. Harvest and growing conditions were quite favorable in most areas. High corn production and yields were reported by Chicago, Kansas City, and Dallas. St. Louis and Minneapolis described healthy early-season conditions for winter wheat crops, while Kansas City described that crop's progress as normal. By contrast, dry weather undermined pasture conditions and created a need for supplemental feedings to livestock herds in the Kansas City and Dallas Districts. Moreover, drought conditions continued in the Southeast, and this reduced or delayed crop plantings and held down crop yields in the Richmond and Atlanta Districts.

Reports on the natural-resources sector indicated further growth from very high levels of activity. High oil prices have stimulated expanded drilling in the Atlanta and Dallas Districts; Minneapolis reported increased activity in the energy and mining sectors since the last report; and Kansas City reported that "energy activity remained robust." However, Cleveland reported a slight decline in production of natural gas.

Prices and Wages

Increases in prices of final goods and services generally remained modest, except for food and energy. Increases in the costs of energy and petroleum-related materials created upward pressures on transportation costs and the prices of some manufactured items; many producers responded by increasing final sales prices, although limited pricing power forced some to absorb cost increases in profit margins. In addition, food prices continued on their pronounced upward march, and some Districts highlighted price increases on various imported goods resulting from the lower exchange value of the U.S. dollar. Increases in final prices for products related to food and energy were moderate in general, however, and they were accompanied, in large part, by stable or declining prices for other products and services, including various construction materials and assorted retail merchandise.

Labor markets remained relatively tight overall but loosened in some areas, and wage pressures were largely unchanged from the previous survey period. Most reports suggested that wage increases continued at a moderate pace, with numerical reports in the range of 3 to 4 percent on an annual basis. Dallas and San Francisco reported that labor market tightness eased somewhat, reflecting upward wage pressures in some areas, but Kansas City noted that wage pressures picked up. Wage gains remained especially rapid for assorted groups of workers with specialized skills used in expanding sectors, such as engineers in the San Francisco District.

Return to top

First District--Boston

First District businesses contacted in mid-November mostly report continuing revenue gains, but rising caution. Staffing firms cite steady growth and particular strength in the Boston area, while software and information technology services firms report a slowdown in revenue growth. Residential real estate markets remain weak and commercial markets continue to soften. Manufacturers are raising selling prices to pass along cost increases; they are more upbeat than retailers about 2008.

Retail and Tourism

Although First District retailers contacted this time mostly report modest year-over-year increases with some volatility in September and October, the overall sentiment is generally cautious.

Inventory levels are mixed. Headcounts are also mixed, with some respondents reporting increased headcount in line with company growth or seasonal hiring, while another reports a modest layoff. One retailer reports intentionally hiring significantly fewer seasonal employees than usual, while another notes that finding seasonal employees has been difficult because more people have fulltime jobs. Several contacts cite price pressures, especially for dairy products. Some respondents say they are starting to feel the effect of rising oil and gasoline prices, including increased surcharges and sharply higher prices for plastics. Selling prices remain mostly stable.

A tourism contact reports that 2007 has been a banner year in the Boston metropolitan area for leisure, business, and convention travel. International travel has been particularly strong because of the weak dollar, and is expected to continue to be robust. However, there is a growing sense of uncertainty about how the increasing price of home heating oil and gasoline will affect domestic leisure travel and tourism in 2008.

Overall, First District retail respondents are cautious in their outlook for early 2008, although some are still cautiously optimistic. Most respondents are worried about the impact of rising energy costs and the recent volatility in financial markets on both consumer confidence and disposable income. Several retailers express more concern about early 2008 than about the upcoming holiday period.

Manufacturing and Related Services

Manufacturers and related services providers headquartered in the First District report mixed revenue trends since midyear. Sales of many types of capital goods continue to show strong gains from year-earlier levels, boosted in part by robust demand from Asia and Europe, as well as by surging spending on energy, power, and non-automotive transportation equipment. However, some capital goods manufacturers are experiencing a slowdown in sales to semiconductor fabricators, financial services firms, and retailers. For the most part, sales of housing-related and construction products and automotive components remain sluggish.

Most manufacturers report that materials costs are rising, especially for metals and oil derivatives, as well as for items priced in currencies that have appreciated against the dollar. Only a few respondents have experienced rising energy prices in recent months; a couple of firms indicate they are shifting to natural gas or wind power to reduce their dependence on oil. Over three-quarters of the manufacturing contacts have responded to higher input costs by raising their selling prices.

Manufacturers continue to adjust their U.S. headcounts only minimally, but they report somewhat more new restructuring efforts or caution in hiring than earlier in 2007. Average wage and salary increases remain in the range of 3 percent to 4 percent. Domestic capital spending plans are mixed, but generally moderate; U.S. spending will largely reflect whether and where firms need to add production and product development capacity.

Manufacturers and related services providers are mostly cautiously optimistic about their business prospects over the coming year. Even those that have a positive sales forecast for 2008 cite downside risks from factors such as weak consumer confidence, depressed housing markets, higher oil and commodity prices, and constrained credit availability.

Software and Information Technology Services

The majority of software and IT services contacts in the First District report modest revenue growth for the most recent quarter. While demand from the health care industry continues to be robust, demand from the financial services sector is mixed; one contact reports no impact from the credit crunch, another notes that small to mid-sized financial services firms have curtailed spending, although "the bigger players" are continuing to buy. The majority of respondents are adding headcount in revenue-generating positions such as sales and consulting, although at a slower pace than last quarter. Firms continue to say the labor market is tight for software engineers. All contacted firms have raised pay, generally between 3 percent and 5 percent.

New England software and information technology firms generally project that revenues will continue growing at current rates. However, several note that the downside risks have increased.

Staffing Services

Staffing respondents in New England report steady growth throughout the third quarter. Companies with Boston locations continue to experience marked increases in revenues from the area, often citing it as their strongest location. Contacts say demand for staffing services is greatest in high-end sectors including biopharmaceutical, engineering, accounting, and legal. Demand from financial services firms remains soft and one contact reports that demand from the IT sector has fallen in the last two months. Supply of skilled labor, which was tight in the second quarter, has become even more limited. Bill rates and pay rates are steady or up slightly, with most contacts suggesting that the rise reflects both an increasing proportion of high-end placements and limited supply. Respondents report stabilizing costs; however, there is upward pressure in healthcare costs and a few contacts express concern over rising gasoline prices. Contacts expect current trends to continue through the end of 2007; however, they are more cautious about 2008. Those with clients in the financial services sector express concern that firms will hold back on hiring into next year, while contacts with ties to the IT sector expect further slowing. All are confident that biopharmaceuticals will continue to be "red-hot" into next year.

Commercial Real Estate

Tighter credit conditions remain in place in New England's commercial real estate markets. Investors have not returned to the commercial mortgage-backed securities (CMBS) market in significant numbers, and trust in the ratings agencies is reportedly very low. Since these other credit sources have dried up, banks and life insurance companies are picking up a considerable amount of commercial mortgage business. However, their willingness to add commercial mortgages to their balance sheets is said to be limited by portfolio allocation considerations. Credit tightening continues to have the biggest impact on loans for speculative construction. Sales activity and planned construction have continued to decline in both Boston and Hartford since the last report; sales transactions have held steady in Maine and Rhode Island, but new construction is expected to decline in those states as well. For Portland, office-building prices are said to be down 5 percent to 10 percent from their highest levels since mid-summer, but retail-space prices are holding steady. In other markets, average prices are not falling, but word is that properties are being withheld from the market to avoid potential losses. One bright spot is that foreign investor demand for prime Boston properties remains strong, reinforced by the weakening dollar.

Conditions in the office leasing market are mixed, but overall the mood has turned more pessimistic. Rental rate increases appear to be slowing in Boston, where absorption and lease renewals have slowed. Despite increases in "face rents," lessors have begun offering building improvements and other concessions in order to retain or attract tenants. Such deals, together with rising energy and construction costs, are squeezing owners' profit margins. Office rents and vacancy rates have been flat in Hartford and Providence, but rents have reportedly fallen 10 percent in Portland year over year, where absorption is zero or negative. In Rhode Island, the industrial market remains strong, with declining vacancy and rising rents, but the retail sector has been mostly "quiet."

Lender reluctance to finance speculative development is expected to continue over the next 6 to 12 months. Construction projects in progress or in the planning stages are likely to be delayed or downsized (especially if they include condominiums), and "build-to-suit" structures are expected to be the only new construction. European demand for office investment is expected to remain active. Contacts now seem less likely than earlier to believe that liquidity will return to the CMBS/conduit market in force by Q1 2008, although activity is expected to pick up eventually. Some contacts (in Boston, Providence, and W. Hartford) expect commercial vacancy rates to continue falling, while others expect absorption to slow and rent growth to stall or become negative. Still, most contacts do not predict a glut of commercial space, because supply growth has been restrained over the past few years.

Residential Real Estate

Reports on New England residential real estate markets are mostly negative. In Massachusetts, available data show double-digit declines (in the mid to high teens) in sales of single family homes and condos in September compared with a year earlier. Data from the state realtors' group show steady median home prices in September and a slight increase in condo prices over the year, while more comprehensive data (including foreclosure sales and other non-realtor sales as well as sales through realtors) show 3 percent to 4 percent year-over-year declines in median prices of homes and condos. Contacts hint that October data will look no better.

Residential markets in the rest of New England similarly show large sales declines and modest price declines in September. Comprehensive September data from Connecticut (including foreclosure sales, etc.) show a 3 percent decline year-over-year in median home prices, along with a 22 percent drop in home sales, after relatively small changes in July and August. Similar data from Rhode Island show home sales dropping 27 percent year-over-year in September and prices decreasing 7 percent, but Rhode Island realtors' data show more modest declines, with home sales down 9 percent and prices down 2 percent. Realtors' data for New Hampshire and Maine show year-over-year home sales declines of 16 to 18 percent and median price declines under 3 percent.

Return to top

Second District--New York

The Second District's economy has continued to expand since the last report, though at a somewhat more subdued pace than in recent months. The labor market has remained strong in October and early November. Manufacturers report ongoing expansion in activity in early November, with increased price pressures. In contrast, non-manufacturers report some weakening. But respondents in both sectors express less optimism about the near-term business outlook than in recent months. Retailers show mixed sales results for October and some have scaled back expectations for the holiday shopping season. Tourism activity in New York City is said to have remained strong, despite a mid-November strike shutting most Broadway theaters. Housing markets remain mixed, with Manhattan's co-op and condo market showing continued resilience but single-family housing markets across New York State increasingly soft. Manhattan's office market, though still fairly tight, eased off a bit in October. Finally, bankers report weakening loan demand in all categories but particularly for home mortgages; they also report tightened credit standards on commercial loans and mortgages, and moderate increases in delinquency rates across all categories, most notably on residential mortgages.

Consumer Spending

Retailers report mixed sales results for October, with unseasonably mild weather hampering purchases of winter clothing, though some contacts express concern that the weakness is more than just weather related. A trade survey conducted in October indicates that New York State retailers, on balance, expect holiday season sales to be weaker than last year. Moreover, two major chains have scaled back their expectations for the holiday shopping season and now anticipate that sales will be flat to down. Malls in the Buffalo area generally continued to out-perform those elsewhere in the region; while some retailers indicate that holiday-season discounting should be quite normal, one noted that discounts have been heavier than usual. Retail inventories were generally described to be in good shape, though one large chain reports some overhang; selling prices were characterized as stable, though promotions have been somewhat steeper than last year; more discounting is anticipated in advance of and during the upcoming holiday season.

Tourism activity in New York City has been steady at a high level, despite a Broadway theater strike. Manhattan hotels report that occupancy rates exceeded 90 percent in October, little changed from last year, while room rates are reported to be up by 16 percent. Broadway theaters report that attendance and revenues were at high levels in October and early November but down a bit from a year ago. A strike starting November 10 shut most Broadway theaters but there is, thus far, no sign of deleterious effects on tourism overall. Consumer confidence has waned since the last report. The Conference Board's survey of Middle Atlantic residents indicates a pullback in confidence in October, reversing an increase in September. Similarly, Siena College's survey of New York State residents shows confidence falling in October, led by a particularly steep decline in upstate New York.

Construction and Real Estate

New York City's commercial real estate market continued to be fairly tight in October, though less so than in recent months. Manhattan's office vacancy rate, which had been steady near a cyclical low at the end of September, rose fairly sharply in October--from 6.8 percent to 7.6 percent--with most of the increase arising from space being put on the market in Midtown. Asking rents, however, continued to rise, though at a slower pace; still rents are up roughly 30 percent from the same time last year.

Manhattan's co-op and condo market showed continued resilience in October and early November, with prices continuing to run modestly above year-ago levels and sales volume picking up moderately compared with the third quarter. The inventory of units on the market is reported to be down by roughly a third from comparable 2006 levels. Long Island's market is reported to remain somewhat sluggish, though demand remains strong in the pricier Hamptons area. Reports from Realtors across New York State indicate continued weakness in the market for single-family homes, with prices down 7 percent from a year ago and unit sales down nearly 20 percent.

Other Business Activity

A major New York City employment agency reports that hiring activity has picked up somewhat in early November--contrary to typical seasonal slowing--following some pullback in September and October. Demand for workers remains fairly strong in the legal industry; financial industry hiring has picked up somewhat as well, though from smaller firms, not the major institutions. Scattered layoffs on Wall Street have are said to have created only a slight increase in the supply of available workers.

New York State manufacturers report steady improvement in business conditions in early November; however, contacts express considerably less optimism about the six month outlook than in recent months. Firms report increasingly widespread escalation in both current and expected input prices in early November. Overall, a growing proportion of non-manufacturing firms in the District report some weakening in general business activity as of early November, and express a good deal less optimism about the general outlook; however, considerably more firms continue to report rising than falling employment at their firms, and the same is true with respect to expected changes in the next six months.

Financial Developments

Small- to medium-sized banks report weakening demand for all types of loans, but most widely in the residential mortgage category, where more than half of those contacted report declines in demand. Bankers also report ongoing decreases in refinancing activity. Respondents indicate tightened credit standards, most notably in the commercial mortgage category. No bankers reported eased standards in any loan category. For all types of loans, however, the majority of respondents (two-thirds or more) report no change in standards. Bankers report a decline in the spreads of loan rates over costs of funds for all types of loans--again, most noticeably in the commercial mortgages category. Reports on delinquencies were split amongst the different loan types. Bankers indicated a slight increase in delinquencies, on balance, for consumer and commercial and industrial loans, and a somewhat more pronounced increase in delinquencies in both the commercial and residential mortgage categories.

Return to top

Third District--Philadelphia

Business activity expanded modestly in the Third District in October and early November. Manufacturers, on balance, reported slight increases in new orders and shipments. Retailers generally reported somewhat better sales growth in early November than in October. Auto sales remained slow, and below the year-ago level. Overall bank lending has been rising, with better growth in business lending than in consumer and real estate lending. Residential real estate sales remained well off the pace set last year and earlier this year, and home building continued to decline. Commercial building occupancy and rents have been rising, but building prices have eased down and leasing activity has slowed since mid-year. Firms reporting on labor costs generally noted a continuing trend of moderate increases in wages, but they continued to report large increases in health care benefits costs. Firms reported increases in input costs and output prices in November, and some noted that prices were rising for an increasing number of imported goods.

Third District firms generally forecast continued growth, but optimistic views are less prevalent than they were earlier this fall. Manufacturers expect increases in demand for their products, on balance, but the number forecasting increases has declined since a month ago. Retailers generally expect sales for the Christmas shopping period to increase from a year ago, but only modestly. Auto dealers generally do not expect for sales rate to strengthen. Bankers anticipate slow expansion in overall lending, with gains coming largely from commercial and industrial lending while consumer and real estate lending growth slows. Home builders and residential real estate agents expect sales to remain weak through the winter, and they are not certain that sales will improve appreciably next spring. Contacts in commercial real estate anticipate near steady demand for office and industrial space, although they believe leasing activity will not increase significantly unless employment growth in the region accelerates.

Manufacturing

Third District manufacturers, on balance, reported only small increases in shipments and new orders in November. Around one-third of the manufacturers surveyed noted increases and nearly as many noted decreases. Increases appeared to be concentrated in a few sectors. Printing firms and producers of food products and textiles reported gains; in most other manufacturing sectors shipments and orders were off from the month. For the Third District manufacturing sector as a whole order backlogs declined from October to November and delivery times decreased. Typical comments from Third District manufacturers are that "business is really being hurt by the residential construction slowdown," but "export business has been strong."

The outlook in the Third District manufacturing sector is positive, although not as strongly optimistic as it had been through most of this year. Around forty percent of the firms contacted for this report expect increases in new orders and shipments over the next six months, and twenty percent expect decreases. Manufacturing firms in the region plan to increase capital spending during the next six months, on balance, but the number of firms that expect to spend more only slightly exceeds the number that expect to spend less.

Retail

Retailers in the Third District reported that sales growth improved in early November following scant gains in October. Merchants said the turn to colder weather boosted sales of winter apparel and that new consumer electronic products also sold well. However, there was some variation among types of stores. Early markdowns of some product lines at discount stores gave their total sales a boost, but some specialty stores saw sales growth falter. Retailers expect sales for the Christmas shopping period to increase moderately from a year ago. Although most of the store executives contacted for this report believe "consumers have the capacity to spend when they're motivated," as one retailer phrased it, merchants in the region expect strong gains only for sales of electronics, such as flat panel televisions and personal computers. They expect sales of other merchandise lines to move up only slightly, if at all, for the fourth quarter of this year compared with the same period last year.

Auto dealers in the region generally reported slow sales rates, especially for sport utility vehicles. Overall sales remained below the year-ago level, and most of the dealers surveyed for this report do not expect improvement.

Finance

Total outstanding loans at Third District banks rose in October and early November. Commercial bank lending officers contacted for this report generally indicated that the increase was stronger for commercial and industrial loans, mainly to middle-market firms, than for personal and real estate loans. They indicated that credit card lending has been rising moderately. Banks and other financial companies engaged in residential mortgage lending reported a large shift toward conforming mortgages and away from sub-prime and jumbo mortgages. Most bank contacts indicated that asset quality overall has weakened slightly in the past few months. Some bankers said repayment rates on credit card debt have slowed and delinquencies have risen. Delinquencies have also increased on mortgage debt, and foreclosures have risen. Looking ahead, bankers generally foresee slow growth in overall lending. They expect mortgage and personal lending to move up slightly, at best, and expect growth in business lending to continue to move up at around its current pace, although some bankers noted that their "pipeline is low" for new loans to businesses.

Real Estate and Construction

Residential real estate activity continued to be very slow in October and early November, according to home builders and real estate agents contacted for this report. Builders continue to make price reductions, but have not been able to boost sales. Builders also reported continuing high rates of cancellations, and some builders noted that tightened mortgage lending standards had eliminated some buyers who had contracted for new homes. As sales have declined builders in the region have stopped work on several projects and laid off workers. Residential real estate agents also reported a slow pace of sales, especially in the region's resort areas that had been very active until mid-year. Although real estate agents said price appreciation was still positive, they indicated that very few house are being sold at listed prices. One agent said that "there are no more multiple offers" for houses and he has "price discussions" regularly with sellers whose houses are on the market for more than a few weeks. Contacts among builders and real estate agents expect sales to remain flat well into next year, and the most optimistic expect any spring pickup to be slight. According to one agent "the glory days are over," and a builder said "the pipeline for next year is anemic."

Commercial real estate firms report that office vacancy rates have declined and rents have increased in most office markets in the Third District in the past few months. However, they noted that leasing activity has decreased and building prices have edged down. Construction of educational and health care facilities has been steady or rising throughout the region, but construction of commercial buildings has slowed. Nevertheless, contacts in commercial real estate said there are plans for new buildings that could be acted on next year if the region's supply of large blocks of office space continues to trend down and employment growth improves.

Prices and Wages

Reports of increases in input costs and output prices from Third District business contacts were about as prevalent in November as they were in October. Manufacturers noted increases in prices of food products, chemicals, and machinery, but they reported some declines in prices of lumber and transportation equipment. Firms in a range of industries reported increases in energy and transportation costs. Retailers noted spreading price increases for imported goods. Most of the firms reporting on employment costs in November indicated a continuing trend of moderate wage increases, but several firms noted that increases in health care costs continued to be large.

Return to top

Fourth District--Cleveland

Economic growth in the Fourth District, although positive, has slowed since our last report. In general, manufacturing output has been steady while production at auto assembly plants increased during October. Activity in commercial construction was stable with a few contractors expecting a slowing in their backlogs going into 2008. Home builders reported new home sales were unchanged to declining. District retailers experienced relatively weak sales. Demand for business and consumer loans was steady to declining while the number of delinquencies rose. Reports on credit quality showed some deterioration, especially on the consumer side. Oil production was up whereas natural gas production fell slightly. Truck freight volume was unchanged to declining.

Employment levels across the District were largely unchanged. On balance, staffing firms reported a slight decrease in job openings while the number of job seekers was flat. Little wage pressure was reported. With the exception of petroleum-based products, supplier prices and material costs were relatively stable. Several manufacturers reported raising their prices during the past six weeks, and some anticipate raising prices in the upcoming months.

Manufacturing

Most District manufacturers told us that production has been steady over the past six weeks with reports of increased production being offset by slowdowns attributed to seasonal factors and scheduled maintenance. On a year-over-year basis, contacts reported output has been unchanged to declining slightly. Steel producers characterized shipping volumes as flat. The strongest end markets for steel included energy, nonresidential construction, and aerospace/defense. Looking forward, almost all of our contacts anticipate production and shipping volume to remain at current levels or decrease slightly. Auto assembly plants within the District reported higher production during October. Foreign nameplates and their domestic counterparts shared in the increase. On a year-over-year basis, automakers experienced a slight production decline.

Most manufacturers reported that capacity utilization is at, or slightly below, normal levels with little to no change over the past six weeks. Further, capital expenditures were on plan with the expectation that current spending levels will be maintained in the upcoming months. With the exception of petroleum-based products and metals, input prices were stable. About a third of our contacts said they have raised their prices during the past six weeks, and some anticipate raising prices in the upcoming months. A majority of respondents reported no change in the size of their workforce. Those citing employment declines attributed them to organizational restructuring, seasonal factors, and attrition. Hiring in the near future is expected to be very slow. Wage pressures were minimal.

Real Estate

New home sales in the District were unchanged or declined since our last report. Sales continue to be down year-over-year. Looking forward, most builders believe a turnaround will not occur until 2009. Home prices were generally stable; however, several builders reported increasing their discounting, especially for spec houses. On balance, material costs remain stable. Almost all contractors told us that the size of their current workforce is in line with market conditions, and they don't anticipate additional layoffs. Concerns about labor costs were limited to increases for health care coverage.

Most commercial contractors reported that business has been stable since early October and has picked-up slightly on a year-over-year basis. Segments showing strong activity include health care, education, and infrastructure. Looking forward, nearly all contractors said that they expect activity in 2008 to be at, or near, 2007 levels. When asked to comment on their backlogs, contractors had mixed responses. Some rated their backlogs as good to very good while others, although busy at this time, are expecting some slowing going into 2008. For the most part, material costs were stable during the past six weeks--though fuel costs have risen significantly. Workforce levels remain largely unchanged. Contractors have not experienced any wage pressures; however, almost all reported increased health care costs.

Consumer Spending

District retailers reported general merchandise sales were flat to declining since our last report while sales of food, pharmaceuticals, and personal care products increased. Contacts told us that the warm autumn weather affected the sales of seasonal merchandise. Retailers had mixed opinions regarding the upcoming holiday shopping season. Auto dealers reported a decline in the sales of new and used vehicles during October, and they anticipate a downward trend in the coming months. Vendor prices were stable during the past six weeks. Hiring was limited to temporary workers needed for the holiday season, and little wage pressure was reported.

Banking

In general, demand for business and consumer loans was steady to declining during the past six weeks. The one exception was an increase in commercial real estate loans by national banks. Reports on auto loans and home equity lines of credit were mixed while the residential mortgage market remains sluggish. Core deposits were flat to slightly up. Most of our contacts told us that their margins continue to decline. Respondents reported an increase in delinquencies, especially for residential mortgages and commercial real estate loans, and some decline in credit quality, in particular, on the consumer side. Looking forward, bankers anticipate a continuing drop in loan demand, restrictive credit conditions, and increased margin pressures.

Energy

In general, natural gas production has declined slightly while oil production has increased. At the same time, prices received for crude rose significantly while gas prices were flat. Capital expenditures remain on plan with little change expected during the next few months. Most of our contacts said that material and equipment costs have increased over the past six weeks. Employment levels are largely unchanged. Several contacts reported some wage pressure due to competition among companies to keep their best employees.

Transportation

Truck freight volume was steady to declining over the past six weeks with the shipment of construction supplies being singled out as particularly weak. Looking forward to 2008, most contacts were uncertain about the level of business activity with only a few anticipating modest growth, at best. Several trucking executives believe there is overcapacity in the industry, which is keeping shipping prices competitive. Increasing fuel costs were cited as an issue by most respondents with some reporting that they were unable to recover the entire amount through surcharges. On net, there has been a slight decrease in employment levels due to layoffs. Wage pressures are not an issue at this time.

Return to top

Fifth District--Richmond

Economic conditions in the Fifth District weakened somewhat in October and early November as continued softness in retail sales and housing markets trumped stronger revenue growth at services firms. District retailers said the pullback in sales and shopper traffic intensified during the early weeks of the holiday shopping season. Housing activity also softened further as the pace of home sales continued to cool, inventory levels moved higher, and reports of price reductions became more widespread. Home mortgage demand softened as well. Adding to the softer tone, extremely dry conditions continued to hamper farm operations in many areas. Reports from other sectors were more upbeat, however. District service providers posted stronger revenues during the last six weeks, while tourist activity advanced at a healthy clip. Manufacturing contacts reported a slight uptick in production during early November and the leasing of commercial real estate space was steady. On the employment front, the pace of hiring eased, though District labor markets remained generally tight and wage growth edged higher. Prices at District firms rose modestly since our last report.

Retail

Fifth District retail sales activity softened further in recent weeks. Contacts reported that activity in big-ticket categories--particularly automobiles and light trucks--continued to slump. Retailers also said a prolonged stretch of mild temperatures in October and early November had curbed demand for cold-weather items. Shopper traffic drifted lower as well. Looking ahead, District merchants were less optimistic about their sales prospects for the upcoming holiday season. In response, contacts reported that big box chains operating in the District had already begun to roll out holiday discounts--well ahead of Thanksgiving. A Richmond, Va. merchant said he was surprised to see the national chains "break price" so early. Turning to employment, retail hiring grew modestly, while the pace of hiring tapered off somewhat. Retail price growth edged higher since our last report.

Services

Revenue growth at District services firms advanced at a faster clip over the past six weeks. Contacts at healthcare, administrative and professional services firms, in particular, reported steady demand in recent weeks. In addition, a contact at a District insurance provider said his firm was on solid footing following a "very benign hurricane season." Going forward, some contacts expressed concern about the potential impacts of rising energy costs. On the other side of the coin, District utility providers told us that a warmer-than-usual autumn had damped their revenue growth. On the employment front, payrolls expanded at modest pace and wage growth was tepid. Prices at District service-providers were generally flat.

Manufacturing

District manufacturers reported that activity picked up slightly during the first half of November, following a pullback in October. Contacts told us shipments and new orders expanded at a modest pace in recent weeks. Gains were particularly solid at electronics, machinery, paper and plastics firms. Producers attributed some of the recent increase in activity to a continued weakening of the dollar. An electronics producer in Maryland, for example, told us export orders rose "dramatically" in November. Despite the uptick in production, District factories trimmed payrolls over the past six weeks, while wages grew somewhat faster. Both raw material and finished good prices increased at a more measured pace since the end of September.

Finance

Demand for home mortgages generally continued to soften since our last report, though scattered reports of increased activity emerged in recent weeks. Lending activity slowed further in Charleston, S.C., and Raleigh, N.C., however, lenders in Washington D.C., and Richmond, Va., speculated that the pullback in demand might be "close to bottoming out." In addition, a contact in Greenville, S.C., noted that she was planning to add loan officers in anticipation of an uptick in business early next year. Furthermore, a lender in Charlottesville, Va., reported that he had seen lending activity pick up in the final two weeks of October. Interest rates on mortgages were steady, while lenders continued to scrutinize home loan applications closely. On the commercial side, reports on lending activity were mixed. Lenders in Charleston, W.Va., and Charlottesville, Va., reported a slight decline in activity, while contacts in the Carolinas said demand continued to wane. Commercial mortgage rates edged lower in most markets and credit standards remained taut.

Real Estate

Residential real estate conditions across the Fifth District eroded further since the end of September. Realtors said sales activity remained weak, and reports of home price reductions were more widespread. Inventories continued to swell. An agent on the eastern shore of Virginia described his local housing market as "very depressed," adding that sales in his area were down fifty percent from last year. Likewise, a Realtor in Fredericksburg, Va. noted a further slowdown in sales during October and early November. Reports were similar in the Washington, D.C. area where a contact described conditions as "dismal." An agent in Greensboro, N.C. told us that the price and condition of properties had to be "just right in order to sell." Nonetheless, a Richmond, Va. contact said some homes priced well below market "just aren't selling." Given the prolonged malaise, Realtors told us they continue to advise clients to "stay put if you can." There were a few brighter spots, however. An agent in Okeeton, Md. reported "decent" activity in recent weeks, and an agent in Greenville, S.C. told us October sales had been slightly above year-ago levels.

On the commercial real estate front, reports on District office markets were mixed, while assessments of retail and industrial leasing were generally upbeat. Contacts in Washington, D.C., Baltimore, Md. and the Carolinas noted slower office leasing activity in October and early November, though an agent in Raleigh, N.C., suggested that the "the recent slow down is only temporary." On the other hand, agents in Richmond, Va., Charleston, W.Va., and northern Virginia reported steady office leasing activity in recent weeks. Demand for retail space remained generally strong according to contacts in Virginia Beach, Va., and Columbia, S.C. Assessments of District industrial markets were mostly positive as well. A contact in Charleston, W.Va., said industrial leasing in his area was in "good shape," and a contact in Columbia, S.C., said his market was "the tightest it had been in ten years." Vacancy rates and rents for office and retail space were generally unchanged since our last report, while industrial vacancies firmed in several markets. Reports on new construction varied. New retail projects were reported in Richmond Va., Virginia Beach, Va., and Columbia, S.C., whereas a contact in Washington, D.C., said retail construction had slowed somewhat.

Tourism

Reports on tourist activity were generally positive. Along the coast, contacts on the Outer Banks of North Carolina and in Virginia Beach, Va. told us bookings for the Veteran's Day weekend were somewhat stronger than a year ago. Another contact on the Outer Banks said tourism was "keeping the community afloat" as real estate and construction activity remained sluggish. Similarly, a manager at a ski resort in Virginia reported a drop off in sales of time shares, though he noted bookings were up and tourist spending was steady.

Temporary Employment

Fifth District temporary employment contacts reported generally strong demand for workers in recent weeks. Taut labor market conditions continued to fuel demand for temporary workers in Raleigh, N.C., and an agent in Bethesda, Md. reported notably firmer demand for office and retail workers. Prospects for future hiring activity remained somewhat cloudy, however. Agents in several markets expressed concern that soft holiday sales could lead to a fall off in retail hiring.

Agriculture

Drought conditions persisted and water restrictions remained in place in many areas of the Fifth District during October and early November. In South Carolina, a lack of soil moisture stalled oat and winter wheat plantings. Additionally, contacts expressed concern about the adequacy of winter feed supplies. There were a few pockets of improvement, however, as several areas of the District received light rainfall and experienced cooler temperatures in mid-November. As a result, pasture conditions improved in parts of Virginia, reducing the need for supplemental feeding. Moreover, the recent rainfall in sections of Maryland enabled farmers to make progress on small grain plantings and the harvesting of corn, cotton and soybeans.

Return to top

Sixth District--Atlanta

Business contacts for October through mid-November continued to paint a mixed picture of economic activity in the Sixth District. Retail reports suggested that year-over-year sales growth had moderated somewhat, and vehicle sales fell short of expectations. In contrast, tourism reports were generally positive. According to homebuilders and Realtors, new and existing home sales were well below year-ago levels in October and the pace of new

home construction continued to decline. The inventory of homes for sale remained high across much of the District. Manufacturing reports varied by sector; the pace of production slowed for most manufacturers linked to residential housing, but remained strong for firms connected to energy, medical, and defense-related industries. Banking contacts noted moderating loan demand and higher foreclosure and mortgage delinquency rates in many areas. Labor markets remained tight in parts of the District, but there were reports of increased layoffs in construction and some housing services industries. Price pressures were centered on energy and food products. Exceptional drought conditions in areas of Alabama, Georgia, and Tennessee continued to hamper crop production.

Consumer Spending and Tourism

Reports from District retail contacts indicated that year-over-year sales growth had moderated somewhat since September. The majority of contacts reported that inventories were up from a year ago, and several contacts stated that inventories were higher than desired. Looking ahead, retailers remained cautiously optimistic, with most anticipating positive year-over-year sales growth over the next several months. October vehicle sales fell short of expectations for most regional contacts. Domestic-brand sales continued to be soft, while foreign-brand dealers reported weaker retail sales than in the last report. Vehicle inventories were generally higher than expected.

Tourism reports were largely positive. Foreign travel has boosted leisure and hospitality activity in Florida, and industry contacts expect Canadian travel to the Sunshine State to increase to record numbers this winter because of appreciation in the Canadian dollar. Hotel and resort occupancies in South Florida increased, in part because of increased business from Europe and Latin America. A North Florida hotel contact said that the pace of bookings for next year is solid. Gaming revenue remained strong along the Mississippi Gulf Coast. All tourism industry contacts indicated that increasing gasoline prices were a significant risk factor for the outlook.

Real Estate

Homebuilders and Realtors reported that new and existing home sales remained well below year-ago levels in October and inventories remained at high levels across much of the District. In addition, the pace of new home construction continued to decline sharply and contacts noted intensifying downward pressure on new and existing home prices. The majority of contacts anticipate weakness in home sales will persist, although some builders remained optimistic that new home sales will improve over the next several months.

October reports on commercial construction indicated that activity was flat to down slightly compared with a year ago. Most Florida contacts continued to report fewer projects in the pipeline compared with last year at this time, while outside of Florida there were scattered reports of declining backlogs. Several contacts noted that high insurance costs remained a stumbling block for commercial development along the Gulf Coast.

Manufacturing and Transportation

Reports indicated that the pace of production slowed for most manufacturers linked to residential housing. Contacts supplying building materials for residential housing markets reported that demand remained weak and inventories were high. A concrete company producing material for the multi-family housing sector noted that production was down significantly. More positively, manufacturers producing goods for the defense, medical, and energy industries reported strong activity. In addition, firms producing for the export market noted improved business and a positive outlook. Freight service firms reported lower shipments of housing-related construction goods and autos.

Banking and Finance

Banking contacts reported rising mortgage delinquency and higher levels of foreclosure. Institutions noted that lending standards and terms had tightened for consumer and C&I loans. Commercial loan demand also appeared to be softer, according to some reports. Several contacts reported that the pipeline of new development projects was lower than earlier in the year, with the exception of medical and public sector projects.

Employment and Prices

Labor market conditions remained generally tight in most parts of the District. Several employers noted a continuing shortage of skilled labor. Labor costs in southeastern Louisiana are reportedly starting to climb because of increased demand for labor in the refinery and petrochemical industries. Contacts reported a lower demand for workers in several housing-related activities such as construction, building material and fixture manufacturing, the sale of homes, and landscape services.

Price reports were mixed. Weak housing markets continued to adversely affect District suppliers of building materials and fixtures. Demand for milled lumber, for example, is weak and prices have declined further. In contrast, some food prices have risen substantially. According to one contact, there have been double-digit increases in prices received for flour, sugar, and soy. Prices are reportedly also increasing for milk and corn products.

Agriculture and Natural Resources

Regional drought conditions continued to trouble the District's farming sector. Crop production and yields were off sharply for most growing areas except Louisiana. Meanwhile, greenhouse and nursery growers were challenged by the lower demand caused by slower new home construction and higher operating costs. One large regional nursery has been forced into bankruptcy because of reduced demand associated with the drought. Citrus production estimates are above last year's weak crop that was affected by the hangover from the 2004 and 2005 hurricanes and disease-related losses. However, dry weather predictions and scarce water supply from two major river basins could seriously limit the near-term outlook for citrus and other Florida crops. Higher oil prices have led to an increase in exploration as well as plans to expand refinery operations in the District.

Return to top

Seventh District--Chicago

Economic activity in the Seventh District continued to expand in October and early November, but at a slower pace than in the previous reporting period. Consumer spending was mixed, and business spending rose at a reduced pace. Labor market conditions varied by industry and location. Residential construction continued to decline, while nonresidential construction increased overall. Expansion in manufacturing eased from the previous reporting period. Credit standards tightened, but this did not appear to crimp household or business borrowing. Wage and cost pressures changed little from those in the previous reporting period. Corn and soybean prices moved higher, despite a record corn harvest.

Consumer Spending

Consumer spending was mixed, with slower retail sales in some areas of the District and slight increases in others. Retailers attributed the declines to households' worries about the economy, higher gasoline prices, and above normal temperatures. A report from Michigan indicated that people were buying less when they shopped and ate out. In contrast, a restaurant chain found demand to be "surprisingly robust" for the Midwest. Furniture stores, consumer electronics, luxury goods, and online sales performed well. Retailers continued to be cautious about the upcoming holiday season. Auto dealers reported that sales during October and early November. Vehicle inventories generally remained a bit elevated, though had come down to comfortable levels for some dealers. Tourism activity declined slightly with a contact from Michigan saying that leisure travel was weaker because people were being more cost-conscious.

Business Spending

Business spending moved somewhat higher during the reporting period. Overall, capital spending plans for 2008 remained above the levels of 2007. One firm even noted that, unlike the past several years, they were not curtailing their capital spending for next year from their initial plans. In contrast, some planned increases in capacity have been delayed or cancelled, notably in the construction materials and biofuels sectors. Labor market conditions improved slightly in Illinois, Iowa, and Wisconsin, but declined in Indiana and Michigan. Layoffs were announced in manufacturing, mainly related to the auto and construction materials industries. Yet hiring continued in other sectors, and shortages of skilled and professional workers lingered. A staffing firm experienced flat volume in District states. Traditional seasonal retail hires lagged those of previous years, as hiring plans shifted toward staffing online sales departments. Looking ahead, contacts thought that permanent additions to the retail work force would be limited. In addition, the potential for fallout from the housing and finance sectors on economic activity was contributing to uncertainty about future hiring needs.

Construction and Real Estate

Residential construction and home sales in the District continued to decline slowly. Many contacts said that a tightening of credit has contributed to declines in local housing markets. Showroom traffic slowed throughout the District. Cancellations began to edge up again in both Illinois and Michigan, as customers had to withdraw from new home contracts after failing to sell their existing homes. Residential rents came under pressure, as builders put vacant homes up for rent. Contacts projected that building conditions would be weak until at least mid-2008. However, there was some positive news. Several contacts thought that activity may be bottoming out in some areas. Another contact said that the declines in home prices in Michigan have begun to pull some buyers into the market. The rate of increase in overall nonresidential development slowed, though infrastructure construction quickened. Contacts said that the ongoing volatility in financial markets has decreased the financing available for nonresidential development projects. One contact reported that construction of retail space was still strong; another commented that banks were still being built. One builder thought that nonresidential construction would become more competitive as residential construction companies move into the market. Nonresidential rents rose gradually, though in Michigan office rents were flat from the last reporting period.

Manufacturing

Manufacturing growth eased compared with the previous reporting period. Manufacturers in many industries reported increases in the already strong demand for exports. An electronics manufacturer reported "phenomenal" growth to the point that they had to turn away business. Domestic steel production continued to move ahead, especially with the moderation of imports. Demand for large agricultural machinery, energy extraction, and mining equipment continued to be robust. In contrast, domestic demand for other types of heavy equipment, including construction machinery and trucks, was weak. Aerospace production schedules slowed, though backlogs for some aircraft parts, which are as high as a year for engines, persisted. Automakers lowered expectations for light vehicle sales, especially for less fuel efficient vehicles and older models. In response, third shifts will end at some assembly plants in the near future with repercussions likely for parts suppliers. Gypsum wallboard capacity and utilization declined, even as older plants were being shut down to make room for more efficient operations.

Banking and Finance

Credit markets tightened again during October and early November. Mortgage originations showed stability in some areas, but were subject to tighter lending guidelines and more likely to have fixed-rate terms. Inquiries picked up for refinancing to fixed rate mortgages, though there was less demand for cash-out refinancing. Home equity loans and lines of credit drew a little more interest due to lower interest rates. A bank reported reduced competition in the market for mortgages as credit restricted access to credit forced out some competitors who lacked adequate liquidity. Business loan demand continued to show modest growth despite slightly higher credit standards, and lending from banks increased to meet the needs of commercial and industrial borrowers. The commercial paper market improved some, as pricing structures adjusted to changes in the market environment. However, there was general concern and uncertainty about how prolonged declines in real estate prices would affect the lending industry.

Prices and Costs

Pressure from wages and costs did not change much compared to the previous reporting period. Manufacturers indicated that most input costs were stable, but they were waiting for increased costs due to higher oil prices and metal prices continued to be volatile. The slowdown in construction has led to further declines in wallboard prices and held down price increases for some other construction materials. More expensive raw materials have started catching up to firms that had successfully hedged against earlier cost increases. The ability to pass higher wholesale prices onto consumers varied by product category. Concerns were expressed about higher food costs resulting from the increased use of agricultural products to produce fuels. Wage pressures were evident in areas experiencing shortages of skilled labor, but were minimal in other sectors. Contacts cited union wage increases in the construction industry as a factor in the cost base of new homes. A few contacts reported that health insurance cost increases were a major issue.

Agriculture

Corn and soybean prices moved higher during the reporting period, despite a record corn harvest. The District corn harvest was boosted by both a large increase in acres planted and by higher yields; the District soybean harvest was smaller than a year ago due to both a reduction in acreage and lower yields. Cash prices for both corn and soybeans rose enough relative to futures prices to reduce incentives to store crops into 2008. More farmers than usual have sold corn and soybeans from future harvests. Demand from local ethanol plants helped to ease transportation problems for crops. Cattle prices were stable; milk and hog prices moved down. The pace of hog slaughter firmed compared to September. There was a shortage of pastures, and hay was at a premium.

Return to top

Eighth District--St. Louis

Economic activity in the Eighth District expanded more slowly in the period since our previous report. Retail and auto sales in October and early November were down, on average, compared with year-ago levels. While the services sector continued to expand, manufacturing activity softened. Home sales and residential construction continued to weaken throughout the District, but commercial real estate market conditions remained positive. Overall lending activity at a sample of District banks was mostly unchanged in the three-month period ending in October.

Consumer Spending

Contacts reported that retail sales in October and early November were down, on average, over year-earlier levels. Half of the retailers saw decreases in sales, while 38 percent saw increases. Approximately 23 percent of the retailers noted that sales levels met their expectations, 65 percent reported that sales were below what they had anticipated, and 12 percent reported sales that were above expectations. Men's apparel and office products were strong sellers, while women's apparel and furniture were moving more slowly. Two-thirds of the contacts noted that inventories were at desired levels, while 25 percent reported higher-than-desired inventories and 8 percent reported lower-than-desired inventories. About 54 percent of contacts expect that sales for the rest of 2007 will increase over 2006 levels and another 17 percent expect sales to be similar to last year, but 29 percent expect decreased sales.

Car dealers in the District reported that, compared with last year, sales in October and early November were down, on average. About 52 percent of the car dealers surveyed reported a decrease in sales, while 32 percent reported an increase. About 24 percent of the car dealers noted that used car sales had increased relative to new car sales and 28 percent reported an increase in low-end vehicle sales relative to high-end vehicle sales. About 28 percent of the respondents reported recent increases in rebates and incentives. About 20 percent of the car dealers surveyed reported that their inventories were too high (mostly on trucks and sport utility vehicles), while 16 percent reported that their inventories were too low. About 60 percent of the car dealers expect increased sales over 2006 for the remainder of the year, and another 12 percent expect unchanged sales, but 28 percent expect decreased sales.

Manufacturing and Other Business Activity

Manufacturing activity softened since our previous survey. While some contacts reported plans to open plants and expand operations in the near future, a larger number of contacts reported plans to close plants or lay off workers. Firms in the plastics and the furniture manufacturing industries reported plans to hire workers, and firms in the sanitary paper product and the chemical manufacturing industries reported plans to open new facilities and hire workers. In contrast, a number of firms in the fabricated metal product industry reported plans to close plants and lay off workers. Firms in the motor vehicle parts and the transportation equipment manufacturing industries also reported similar plans to downsize. Firms in the wood product and the food manufacturing industries reported plans to lay off workers.

The District's service sector continued to expand steadily in most areas since our previous report. Contacts in the business support services and health care industries reported plans to expand operations and hire additional workers in the District.

Real Estate and Construction

Home sales continued to slow throughout the Eighth District. Compared with the same period in 2006, September 2007 year-to-date home sales declined 14 percent in Memphis, 8 percent in St. Louis, and 2 percent in Little Rock; they were virtually unchanged in Louisville. Residential construction continued to decline throughout most of the District. September 2007 year-to-date single-family housing permits fell in most District metro areas compared with the same period in 2006. Permits declined 27 percent in Memphis, 18 percent in Little Rock and St. Louis, and 6 percent in Louisville.

Commercial real estate market conditions were generally positive throughout the District. The third quarter 2007 industrial vacancy rate decreased from the second quarter rate in St. Louis, Louisville, and Little Rock, while Memphis's industrial vacancy rate increased slightly. During the same period, office vacancy rates decreased in St. Louis, Louisville, Little Rock, and Memphis. Contacts in Little Rock reported that the number of new commercial building permits for year-to-date September 2007 are more than double the number for the same period last year. Contacts in Memphis and Louisville reported a strong outlook for commercial construction projects, while a contact in Madison County, Tennessee, reported that new commercial construction permits were at their lowest level in three years.

Banking and Finance

A survey of senior loan officers at a sample of District banks showed little change in overall lending activity in the three months ending in October. Credit standards and demand for commercial and industrial loans remained unchanged for both large and small firms. Credit standards for commercial real estate loans tightened somewhat, while demand for these loans was moderately weaker. Meanwhile, credit standards for consumer loans ranged from somewhat tightened to unchanged, while the change in demand for these loans ranged from about the same to moderately weaker. Credit standards for prime residential mortgage loans remained basically unchanged, while credit standards for nontraditional mortgage loans tightened. The change in demand for both prime and nontraditional mortgage loans ranged from about the same to moderately weaker.

Agriculture and Natural Resources

At least 95 percent of the corn, 89 percent of the soybean, 94 percent of the sorghum, 98 percent of the cotton, and all of the rice in the District states have been harvested. Yield estimates for most crops in most District states stayed roughly the same between October and November, but yield estimates for soybeans and cotton in Tennessee decreased by more than 10 percent. Winter wheat planting was ahead of its normal pace, and each District state has planted at least three-fourths of its intended crop. Over 60 percent of the emerged winter wheat in each District state was in good or excellent condition.

Return to top

Ninth District--Minneapolis

The Ninth District economy grew moderately since the last report. Growth was noted in consumer spending, tourism, services, commercial construction and real estate, manufacturing, energy, mining and agriculture. Residential construction and real estate continued to weaken. Employment was mixed, with tight conditions in the western part of the District and loosening in the east. Overall wage increases were moderate, while significant price increases were noted for fuel, fertilizer, food, steel and copper products.

Consumer Spending and Tourism

Consumer spending increased modestly. A major Minneapolis-based retailer reported that same-store sales increased about 4 percent in October compared with a year earlier. Traffic was relatively slow in October at a Minneapolis-area mall, but grew in early November. Store managers were optimistic for the holiday season, and some were running early promotions. Retail sales at a mall in Fargo, N.D., were well above year-ago levels during the past two months, according to the manager, who also noted increased Canadian traffic because of the stronger Canadian dollar. However, according to preliminary results of the Minneapolis Fed's annual business outlook poll (November), 48 percent of respondents expect consumer spending to decrease in their communities during 2008, while 12 percent expect increases.

An auto dealer in Montana noted that recent demand for smaller cars is increasing and that overall car sales are ahead of last year. Car sales softened during October and early November, according to a representative of a Minnesota auto dealers association.

Fall tourism was up, and officials were optimistic for the winter season. Tourism and convention business was strong during October in Duluth, Minn., according to an official; inventory, occupancy and rates were up. According to a chamber of commerce representative in northwestern Wisconsin, overall tourism-related traffic was good and businesses were optimistic for the winter season.

Services

Contacts from professional business service firms were upbeat. Based on preliminary results from the Minneapolis Fed's outlook poll, respondents from the service sector expect strong growth in their company sales, employment and capital investment in 2008. Contacts at legal firms reported robust billings in several sectors.

Construction and Real Estate

Commercial construction activity was up slightly. A bank director noted that Minnesota builders were busy with industrial and large commercial projects, but that activity in smaller commercial projects was slowing. Construction began on the replacement span for the I-35W bridge in Minneapolis. A large medical provider announced plans to expand its headquarters in the St. Paul suburbs by 175,000 square feet. Meanwhile, residential construction continued at a slower pace. In Minneapolis-St. Paul, housing units authorized dropped 28 percent in October from the previous year. Six planned condominium developments in downtown Minneapolis have been stalled or cancelled in recent months. However, October new housing permits in Sioux Falls, S.D., increased from the previous year.

Commercial real estate saw steady growth. A Minneapolis commercial real estate firm noted that the industrial market saw positive absorption in the third quarter with an increase in lease rates and that leasing was brisk for office space. However, retail rent estate was soft. The residential real estate market continued to decline. October home prices per square foot fell 4.4 percent from the previous year, with condominium space down almost 6 percent. However, rents increased and the rental vacancy rate decreased during the third quarter in Minneapolis-St. Paul. Realtors in Sioux Falls said the market there was robust. In western Montana, demand for housing was still strong.

Manufacturing

The manufacturing sector grew since the last report. Based on preliminary results from the Minneapolis Fed's outlook poll, respondents from the manufacturing sector expect growth in company sales, employment and capital investment in 2008. In addition, preliminary results from a survey of District manufacturers conducted in early November by the Minneapolis Fed and the Minnesota Department of Employment and Economic Development show that businesses expect production, productivity and investment to increase in 2008 from a solid 2007. Several respondents from the aforementioned surveys indicated that strong exports are driving sales. Meanwhile, an October survey of purchasing managers by Creighton University (Omaha, Neb.) indicated increased manufacturing activity in Minnesota and the Dakotas.

Energy and Mining

Activity in the energy and mining sectors increased since the last report. Oil and gas exploration and production in the District continued at a solid pace. Numerous wind energy projects are under construction, while some proposed ethanol projects were put on hold. Most mines continued to operate at near capacity. High metal prices induced permitting for new mines and expansion of several existing operations.

Agriculture

Robust agricultural conditions were reported across the District. Preliminary results of the Minneapolis Fed's third quarter (October) survey of agricultural credit conditions indicated that lenders expect overall agricultural income and spending to be up in the fourth quarter of 2007 due to higher selling prices and decent yields, but are cautious about higher input costs affecting next year's profits. The strong fall harvest is nearly complete for all major District crops; winter wheat has started to emerge and is in good condition.

Employment, Wages, and Prices

Employment was mixed with tight conditions in the western part of the District and loosening in the east. Based on preliminary results of the Minneapolis Fed's outlook poll, 34 percent of respondents plan to increase employment over the next year, while 21 percent expect to decrease employment. Retailers in Sioux Falls were having difficulty hiring enough seasonal workers because of the area's low rate of unemployment. One retailer noted a decrease in retention as workers search for better pay or benefits at other locations. In northwestern Montana, businesses are advertising and offering more benefits to attract workers than in the past.

In contrast, Minnesota employment levels were down 6,600 jobs in October from September and were only slightly above last year's levels. A residential real estate lender recently announced plans to cut 460 jobs in Minnesota, while a producer of air conditioning and heating equipment plans to lay off up to 145 workers in southwestern Wisconsin.

Overall wage increases were moderate. The preliminary results of the Minneapolis Fed's outlook poll showed that 87 percent of respondents expect wages and salaries to increase no more than 3 percent at businesses in their communities during 2008.

While overall price increases were moderate, significant increases were noted for fuel, fertilizer, food, steel and copper products. Minnesota gasoline prices in early November were about 85 cents a gallon higher than a year ago, while Midwest diesel prices were about 80 cents higher. A Montana bank director noted that fertilizer and a number of food prices have increased over the past three months. Some steel and copper product prices recently rose.

Return to top

Tenth District--Kansas City

The Tenth District economy expanded modestly from mid-October to mid-November, but with some mixed signals across industries. Consumer spending strengthened overall, and energy and agricultural activity remained strong. The pace of growth of manufacturing activity was somewhat sluggish, but plant managers were generally optimistic about the future. Residential real estate activity weakened further, while commercial real estate activity was solid. Bankers reported softer loan demand and tightened credit standards. Wage pressures increased, although the pace of hiring moderated. Price pressures were generally modest, with stable retail prices but slightly higher prices in manufacturing.

Consumer Spending

Consumer spending strengthened since the previous survey. After easing in the last survey period, sales at retail stores recovered, with inventories remaining relatively stable. Sales of apparel and electronics were relatively strong, while home furnishings were weak. Automobile sales continued to decline, with especially weak demand for large vans, trucks and SUVs, but relatively strong sales of fuel efficient and smaller cars. Following strong travel activity in September, tourist visits moderated in line with normal seasonal patterns. Still, most contacts in the hotel industry reported higher activity compared to expectations. Average daily hotel room rates were up in October and hotel occupancy rates remained strong. Restaurant sales were up slightly since the last survey period, and contacts anticipated strong activity in the next three months.

Manufacturing

Manufacturing activity grew modestly since the last survey period, and firms remained generally optimistic about the future. After easing slightly in September, production edged higher in October. The volume of shipments also increased compared to the previous survey period. On the other hand, new orders and orders for exports edged down, suggesting some near-term sluggishness. Employment also edged down, and factories continued to reduce inventories of both materials and finished goods. Capital spending remained relatively strong, however, and plant managers reported positive expectations about activity six months out, with production and employment expected to improve and the rate of pullback of inventories expected to moderate.

Real Estate and Construction

Residential real estate activity declined further, while commercial real estate activity remained solid. Home sales weakened in most areas and many residential contacts reported negative expectations about near-term activity. Demand for higher priced homes was especially weak. Home prices fell slightly and inventories of unsold homes rose in most major markets. However, home inventories eased a bit in the Denver metro area market, and some energy-producing areas registered home price appreciation. Commercial real estate sales activity remained solid, with little change in office vacancy rates and absorption rates. The overall pace of commercial construction slowed, except in the District's energy-producing regions, where activity remained robust. Several District contacts reported weakness in industries that supply materials and equipment to construction firms. Office rents remained higher than year-ago levels and were expected to continue to increase.

Banking

Bankers reported weaker loan demand, tighter credit standards, and little change in deposits since the last survey. Demand for residential real estate loans and commercial and industrial loans again fell moderately. Demand also declined slightly for commercial real estate loans and consumer installment loans. Overall loan quality was stable, and respondents expect little or no change in loan quality over the next six months. Some banks reported a further tightening of credit standards for commercial and residential real estate loans, although there were fewer such reports than in the previous survey. Bank deposits held steady, as increases in money market deposit accounts were offset by declines in CDs.

Energy

District energy activity remained robust. Drilling was particularly strong in the energy-producing regions of Colorado and in Oklahoma. Energy contacts reported the availability of equipment and services as their top constraint. Many respondents reported labor shortages, particularly for skilled and professional workers, but most indicated that availability of labor was not a limiting factor in drilling activity. Most energy firms surveyed expected to see robust drilling activity in the next three months. However, some companies recently reduced their budgets for international operations due to higher drilling costs associated with appreciation of foreign currencies, which have cut into their profits given the pricing of oil in U.S. dollars.

Agriculture

Agricultural conditions remained favorable. The fall harvest was almost complete and winter wheat emergence was progressing normally. Dry weather aided harvest progress, but reduced soil moisture levels and eroded pasture conditions, especially in Oklahoma, where some livestock were placed on supplemental feed. Strong foreign and domestic demand for agricultural commodities helped support crop prices. Above-average corn and soybean yields coupled with strong crop prices and rising exports were boosting farm income, despite rising input costs. High feed costs were trimming livestock profits. Farm credit conditions strengthened as loan repayment rates remained high and the number of requests for loan renewals and extensions eased further.

Labor Markets and Wages

District labor markets remained tight since the previous survey, although the pace of new job growth continued to slow. Hiring announcements outpaced planned layoffs, with significant hiring reported by firms in manufacturing and health care industries. Reports of labor shortages were most notable in energy-producing areas of the District, although District energy firms seemed less concerned about finding workers than firms in other industries. District contacts in the retail and hospitality industries experienced particular difficulty hiring and retaining staff. In response to continuing labor shortages, wage pressures were higher than in previous surveys.

Prices

Price pressures in the District generally remained modest. Retail prices were stable, with most retailers expecting no change in prices in the next three months. Restaurants anticipated raising menu prices, but said food costs had moderated since the previous survey. Builders also reported some easing in the price of raw materials. The share of manufacturers reporting higher raw material prices edged up slightly. After steadying in the last survey, manufacturing selling prices also increased slightly. Nevertheless, a much smaller fraction of manufacturers increased selling prices than reported higher raw materials costs. The share of manufacturing respondents expecting future increases in the price for raw materials remained high, but did not change from the previous month.

Return to top

Eleventh District--Dallas

The pace of economic activity in the Eleventh District decelerated further from mid-October to mid-November. Manufacturing activity continued to weaken, and demand for business services was softer. Retail sales were weaker than expected. Financial service firms reported slower consumer and commercial lending. Home real estate markets and construction continued to soften, but commercial and multi-family building and markets remained strong. Energy activity picked up. Agricultural conditions remained generally positive.

The level of uncertainty remains quite high, and some firms say it has increased over the past month. Most industries expect activity to pick up in 2008, but the expected timing of the rebound varies from firm to firm.

Prices

Energy prices have risen steadily since early October. Escalating geopolitical tensions, tight fundamentals and a weak dollar caused sharp increases in the price of crude oil that pushed up heating oil, gasoline and diesel prices. Natural gas prices also rose but were restrained by high inventories, which reached record levels.

Higher energy costs are putting upward pressure on selling prices for most industries, but competitive pressures continue to restrain price increases for many firms. Shipping firms say rising fuel costs have pushed up prices, and some expect further price increases in January. Airline fares are also higher.

Manufacturers continued to report cost pressures from higher fuel, raw materials and import price pressure from declines in the value of the dollar. Price pressures continue to be a serious concern for the food industry. Costs are high or rising for many products, which contacts attribute mostly to increased demand for corn to make ethanol. Prices have recently risen sharply for wheat and flour, in part because production was displaced for corn.

Labor Market

The labor market remained tight, and difficulty in hiring continued to restrain some activity. Still, the market has loosened a little, with more firms reporting slower hiring, and at least one manufacturer scheduling workers for fewer shifts. Temporary service firms are having less difficulty finding potential employees. While there continues to be some wage increases, pressure appears to have ebbed, and a few firms said they are considering bonuses instead of salary increases this year.

Manufacturing

Strong commercial, multifamily and industrial construction continued to fuel demand for some construction-related products, but sales declined further for products used in residential building. Manufacturers of construction-related products are cautious, expecting housing markets to remain slow through 2008 and possible declines in commercial and road work.

Some high-tech manufacturers reported continued good sales, but other said sales were slower, leading them to reduce their outlook for activity. Demand for food products is stable, although producers say there has been some shifting of consumption to lower-priced foods. Paper producers say demand for recycled paper is very high, but a noticeable drop in sales of corrugated boxes to manufacturing and construction has caused inventories to rise. Transportation manufacturers report stable demand. Auto producers say inventories are a little high.

Domestic petrochemical demand was still weak, with slow sales to homebuilders and auto producers. A weak dollar and favorable feedstock prices are still spurring strong export demand, but higher feedstock costs have driven up prices for some chemicals, hurting sales. Refiners were reluctant to build crude inventories with current prices well above futures.

Retail Sales

Retail sales have been weaker than expected and slower than in the last reporting period. Contacts say consumers are being very cautious, with high food and fuel costs straining lower-income customers. Warm weather dampened some apparel sales, but national retailers said Texas continued to outperform the rest of the country. Many stores entered the holiday season with discounts to reduce inventory. Some contacts report input cost pressure building over the next several months, leading to a greater sense of urgency to streamline operations and reduce costs. Auto sales remain sluggish.

Services

Demand for temporary staffing services was sluggish. Orders have declined from manufacturing and warehousing industries, but demand is holding up for accountants, financial services, information technology professionals and business support staff.

There has been little change in demand for accounting and legal firms. Accounting firms reported steady demand and a very good outlook. Law firms report a pickup in bankruptcy and litigation work that is sufficient to offset slower real estate and corporate transactions. Contacts say the recent shift in legal activity usually signals a slowing economy.

Overall shipping activity has been weaker. Intermodal firms say imports have fallen and are not being completely offset by export growth. Small parcel volume has been decelerating over the past two months, but large freight volume appears to have increased. Railroad volume is still strong but weaker than a year ago, with particularly weak shipments of motor vehicles, lumber and wood.

Airlines reported strong demand and no sign of weakness in bookings. Capacity is flat to shrinking. Contacts are very concerned about rising fuel costs and the possibility that a slowing economy might affect business travel, but said they are hoping for a soft landing.

Construction and Real Estate

Home markets weakened, and construction continued to ebb. Sales have dropped significantly for homes priced under $200,000. Existing home inventories edged up but are low compared to historical and U.S. averages. Overall existing home prices remained steady, but there is downward pressure on new home prices, and builders are increasing incentives to reduce inventory. Contacts are uncertain about the outlook, but most don't expect a turnaround until 2009. Apartment demand picked up, partially because some homebuyers are unable to qualify for a mortgage. Multifamily construction is still robust, and contacts are optimistic that employment and population growth will keep demand growing enough to absorb new supply.

Office leasing continued to expand, although growth is still slowing from last year's pace. Office rents have risen strongly in most metropolitan areas, but some contacts are uncertain they will hold up because of new construction and the deceleration in demand for space. Office fundamentals remain quite good, according to contacts, but investment activity is still being hampered by difficulties obtaining credit. A few contacts say commercial credit availability deteriorated in November after improving in September and October.

Financial Services

Demand for loans is slowing along with the economy. Financial service firms expect continued softening, but remain optimistic. Most borrowers are receiving added scrutiny, and credit spreads have been increased for the more highly leveraged deals. Still, competition for quality deals remains aggressive.

Consumer lending has softened, particularly for automobiles. There has been a slight shift toward credit card lending and away from home equity lending. Real estate lending for the most creditworthy borrowers has increased as mortgage rates have chased the 10-year Treasury rate down. Commercial lenders say some of the recent slowing in lending may be seasonal, but most of their clients have revised down their outlook and anticipate further softening in the economy.

Energy

Energy activity remains robust. Rising energy prices stimulated an increase in land drilling--with Texas drilling rising to the highest levels since the 1980s, and international activity continuing to rise. Demand for oilfield services was strong. Lead times remain fairly long for many manufactured items used in the oil patch. Competition from newly built and imported rigs has put downward pressure on rates.

Agriculture

Warm, dry weather boosted cotton yields, but production is below average because producers shifted acres to corn, and cotton prices have increased to well above the 10 year average. Yields for corn, cotton and grain sorghum are good to excellent. Winter wheat and pasture growth has slowed. Livestock producers have begun supplemental feeding of their herds.

Return to top

Twelfth District--San Francisco

The Twelfth District economy expanded during the survey period of October through mid-November, but the pace of growth showed signs of further deceleration relative to recent survey periods. Upward price pressures were modest in general with the exception of sharp increases in the prices of food and energy, and increases in labor compensation were moderate on net. Reports on retail sales were downbeat in general, and demand for services grew at a slower pace than in recent survey periods. Manufacturing activity held up well overall, and agricultural producers reported further growth in demand and sales. Home demand and construction remained exceptionally weak, while demand for commercial real estate remained strong but showed signs of softening in some areas. Banking contacts reported little or no change in overall lending activity and tighter credit standards for various types of loans.

Wages and Prices

District contacts reported that price inflation was modest overall. Final prices were largely stable or down slightly for a variety of retail products, selected construction materials, and some categories of professional services to businesses. By contrast, increases in the costs of energy and assorted raw materials created upward price pressures for transportation services and selected manufactured goods; for some goods, rising import prices associated with declines in the exchange value of the U.S. dollar added to upward price pressures. Prices for various foods continued to rise rapidly, with some contacts reporting inflation rates as high as 8 to 10 percent.

Upward wage pressures were moderate on net, with contacts noting only small changes in overall labor costs. Reports from several sectors, including banking and construction, indicated that slight loosening in labor markets has relieved upward wage pressures of late, although wage increases remained rapid for engineers and other skilled technical workers in many areas.

Retail Trade and Services

Reports on retail sales generally were downbeat. Sales growth has slowed for major department stores and smaller retail chains, causing increased inventories and order cancellations in some cases. Contacts generally expect holiday season sales to show at best weak growth relative to last year, and several contacts pointed to signs that price discounting is occurring earlier than normal. The primary exception to this pessimistic outlook is consumer electronics products, for which sales remained brisk. The ongoing downturn in housing markets has caused sales of household items to fall, with further significant declines reported for furniture and appliances. Sales of new automobiles remained sluggish, especially for domestic makes, and the earlier strength in demand for used vehicles softened a bit.

Demand for services grew further but signs of slowing were widespread. Providers of health-care services reported continued strong growth. However, sales by advertising agencies and providers of media services were held down by weak advertising demand from sellers of automobiles and home furnishings. Similarly, activity fell further for providers of services related to home sales, such as real estate agencies and title companies. Travel and tourism activity remained at high levels in major District markets, but conditions have cooled, with contacts from Southern California and Hawaii reporting that indicators such as visitor counts and spending are flat to down slightly relative to a year earlier.

Manufacturing

Demand for products manufactured in the District generally held steady or expanded somewhat during the survey period of October through mid November. Production activity and sales remained very strong for makers of commercial aircraft and their suppliers. A maker of industrial equipment reported "steady" production activity and orders. Sales of information technology products remained on a moderate growth path, and contacts from that industry reported continued high levels of capacity utilization and generally balanced inventories. By contrast, demand for wood products fell further, and prices were reported to be lower in some cases. Food manufacturers saw further robust gains in output and sales, while apparel makers reported slight weakness in orders and a desire to reduce inventories.

Agriculture and Resource-related Industries

Demand for agricultural products continued to grow, with only limited supply constraints evident. Contacts reported solid sales growth for dairy products and a variety of crops, with a substantial expansion of export sales spurred in part by the reduced exchange value of the U.S. dollar. A few reports pointed to improved labor availability and generally stable input costs.

Real Estate and Construction

The slowdown in District housing markets deepened during the survey period, while demand growth for commercial real estate generally remained strong. The glut of available homes continued in most areas of the District, keeping construction activity at very low levels and causing prices on some homes sold to drop noticeably in some regions; contacts reported no signs of improvement in existing weak conditions. Mortgage availability and terms improved slightly during the survey period but reportedly remained a significant constraint on home purchases in many areas. In contrast to housing markets, construction and leasing activity in the commercial and industrial sectors has remained vibrant in most parts of the District. However, scattered reports pointed to recent signs of softening, including a sharp reduction in commercial real estate transactions since September in the San Francisco Bay Area and rising vacancy rates in Las Vegas due to substantial availability of newly built space.

Financial Institutions

District banking contacts reported that overall loan demand was largely stable. Little or no change was reported for commercial and industrial loan volumes relative to the previous survey period, except in Hawaii, Idaho, and Utah, where robust economic conditions in general supported further expansion in loan volumes. Residential mortgage lending was stuck at low levels in most areas. Credit availability and standards remained relatively restrictive for residential mortgages and construction loans, and a few reports pointed to tighter credit conditions for consumer and business borrowers in general.

Return to top

Home | Monetary Policy | 2007 calendar
Accessibility | Contact Us
Last update: November 28, 2007