The Federal Reserve Board

The BEIGE BOOK

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Summary of Commentary on Current Economic Conditions by Federal Reserve District

Summary

Prepared at the Federal Reserve Bank of Kansas City and based on information collected on or before February 26, 2007. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Most Federal Reserve Districts reported modest expansion in economic activity since the last report, but several Districts noted some slowing. For example, New York characterized growth as well-maintained but with a few signs of deceleration. In addition, St. Louis said that activity increased more slowly than in the previous period, Boston reported some softening, and Dallas said economic activity continued to decelerate. On the other hand, Philadelphia reported economic conditions improved slightly.

The majority of Districts reported steady growth in retail sales, while vehicle sales remained sluggish. Tourism activity was generally positive, and the demand for services continued to expand in most Districts, with strong increases in health care, accounting, legal, and technology services. Manufacturing activity was steady or expanding, despite continued weakness in production related to the construction and auto industries. Almost all Districts reported that housing markets remained weak, but signs of stabilization were noted in several Districts. In contrast to the housing sector, commercial real estate markets continued to firm or remained solid. Lending activity remained mostly unchanged from recent periods, as increasing demand for commercial and industrial loans continued to offset declines in residential mortgage lending. Agricultural conditions generally improved across the country. Energy production and exploration remained at high levels, but some Districts reported a slowdown from the previous survey.

Most Districts noted further expansion in labor markets and continued tight supply of skilled and professional workers. With rising demand for many types of workers, wage pressures increased slightly in several Districts, although pay increases generally remained moderate overall. Most Districts characterized price pressures as little changed. Energy and construction-related materials prices fell, but food input costs increased in several Districts.

Consumer Spending
The majority of Districts reported steady growth in retail sales, but sales in some Districts were held back by bad weather. Dallas noted a pick-up in sales, and Chicago said January sales were boosted by the increased popularity of gift cards this past holiday season. Several Districts reported strong sales of consumer electronics, and New York, Philadelphia, and Atlanta said cold weather helped boost sales of winter and other apparel. Unfavorable weather conditions in the Boston, Cleveland, and Kansas City Districts, on the other hand, were blamed for overall disappointing retail sales. Richmond also reported weak sales, especially for big-ticket items. Several other Districts reported poor sales of home-related items, such as furniture and appliances, due to weak residential real estate markets. Most Districts reporting on inventories said contacts were pleased with current levels.

Vehicle sales remained sluggish in most Districts, especially for domestic models. St. Louis, Kansas City, Dallas, and San Francisco characterized sales as flat, and Philadelphia said sales were below year-ago levels. Sales in the Atlanta District were generally poor, although contacts in South Florida noted stronger activity. San Francisco noted that inventories of domestic trucks and SUVs remained high. Minneapolis reported that some dealerships selling domestic vehicles have closed or plan to close; contacts in the Philadelphia District also anticipated some closings. On the other hand, Chicago reported steady vehicle sales, with light trucks beginning to regain market share from more fuel-efficient cars. Kansas City also noted an uptick in sales of trucks and SUVs.

Services and Tourism
The demand for services continued to expand in most Districts, especially for health care, accounting, legal, and technology services. Boston, Richmond, and San Francisco reported robust services growth, and St. Louis also noted expansion in most services sectors. Dallas said the rate of increase in demand for services decelerated further, though demand for legal services in the District was higher than a year ago. Boston reported that software and information technology firms generally had positive outlooks; San Francisco also characterized conditions in the high-tech industry as strong. Richmond reported increased demand for hospital services, and Boston noted strong growth in health care-related technology. On the negative side, Cleveland, Atlanta, and Dallas reported lower activity in transportation services. Atlanta attributed the weakness to lower demand from homebuilders, with rail contacts noting fewer freight shipments of lumber and other construction-related cargo. Cleveland noted a decline in shipments of auto-related products.

The majority of Districts characterized tourism activity as positive overall. San Francisco reported strong activity in the Bay Area, and Dallas noted increased demand in air travel over the past six weeks. Atlanta contacts reported that Mississippi Gulf Coast casinos were doing more business than before Hurricane Katrina, and Florida business travel is expected to increase moderately this year. New York said tourism remained brisk, but noted some modest pullback recently from an exceptionally high level of activity in New York City. Minneapolis, Boston, and Richmond said ski areas suffered from lack of snow, but heavy snowfalls benefited the Rocky Mountain ski resorts in the Kansas City District.

Manufacturing
Manufacturing activity was steady or expanding in most Districts. New York and Kansas City noted a recent rebound in activity; Cleveland, Minneapolis, and San Francisco also reported increases. On the other hand, Dallas, Richmond, and St. Louis reported slower growth or a decline in factory activity. Chicago described manufacturing as sluggish, though

with some recent signs of firming. Producers of steel and machinery saw increased demand in many Districts, and San Francisco and Boston noted a rise in orders for commercial aircraft and aviation products. Food manufacturing also experienced strong growth in the San Francisco and Dallas Districts. Manufacturers in the New York District continued to express widespread optimism about the near-term outlook, and Kansas City, Philadelphia, and Cleveland reported increases in manufacturers' capital spending plans.

Most Districts reported that manufacturing activity related to residential real estate remained sluggish, especially for production of household appliances, furniture, and building materials. Atlanta, St. Louis, and Dallas reported a slowdown in manufacturing of auto-related products, while Cleveland said that although some auto-parts suppliers have seen a decrease in activity, auto production has increased. Chicago said that light vehicle sales were running below plan, but producers had not yet adjusted their assembly schedules.

Real Estate and Construction

Almost all Districts reported that housing markets remained weak, but signs of stabilization in the sector were noted in several Districts. Chicago, Minneapolis, Dallas, and San Francisco reported that new residential construction continued to fall, and New York and Philadelphia noted that homebuilders had scaled back their plans. But Cleveland and Atlanta noted that construction had flattened out. Housing contacts in the Atlanta District reported that declines in sales were moderating, except in Florida. San Francisco also noted a slowdown in the deterioration of conditions in California, though activity in hard-hit areas such as Arizona continued to contract. In the New York District, builders in New Jersey reported some stabilization in the market for new homes, and demand for multi-family units in New York City remained strong. Richmond said housing markets in general showed additional signs of firming, while contacts in the Kansas City and Cleveland Districts, where activity was still at low levels, were encouraged by recent increases in buyer inquiries.

Still, further contraction in housing markets was noted in several Districts, and home prices were generally flat or declining. According to the Dallas District, inventories of unsold homes in the Dallas-Fort Worth area rose to new highs due to slowing sales and rising cancellations. Contacts in the Boston District saw no signs that the weakness in housing was nearing an end. Homebuilders in the Philadelphia District were making significant price reductions to move new homes, and real estate agents in that District reported that prices for existing homes had come to a standstill. San Francisco also reported noticeable recent price declines in some areas, while Chicago reported that more than three-fourths of builders in the Chicago area were adding non-price incentives to sell homes.

Commercial real estate markets continued to firm in many Districts and remained generally solid or strong elsewhere. New York did report a slight overall easing in the New York City office market, as vacancy rates edged higher in midtown Manhattan. However, asking rents throughout the city were up 25 percent from a year ago. Chicago also reported slightly slower expansion of nonresidential construction in the District as a whole but said office construction in downtown Chicago was quite strong and that office rents were increasing in the city. Boston reported considerable increases in commercial investment throughout New England over the past year; Atlanta also said demand for commercial development remained strong. According to the Richmond District, one area experiencing some difficulties in its office market was greater Washington, D.C., including northern Virginia, where high rents and lower optimism had reduced leasing activity.

Banking and Finance
Lending activity remained mostly unchanged from recent periods, as increasing demand for commercial and industrial loans continued to be offset in most Districts by declines in residential mortgage lending. Overall loan demand increased in the Philadelphia, Kansas City, and San Francisco Districts, while New York reported a decrease. Demand for commercial and industrial loans increased or remained solid in most Districts. New York, Philadelphia, Chicago, Kansas City, and San Francisco reported demand for residential mortgage loans had declined. Cleveland and Dallas reported some weakness in consumer lending, while Philadelphia noted an increase in such lending. Credit quality was said to be generally unchanged. However, New York, Richmond, and Atlanta reported some increase in residential mortgage delinquencies, and Atlanta and Chicago noted deterioration in credit quality in the sub-prime segment. Tighter credit standards in commercial real estate were noted in the St. Louis District and on all types of loans in the New York District.

Agriculture and Natural
Agricultural conditions generally improved across the country. Winter snow and rain storms brought much needed moisture to many drought-stricken Districts. St. Louis, Kansas City, and Dallas said the winter wheat crop was in good condition. Richmond reported that a mild winter had improved livestock conditions. San Francisco, however, reported that a harsh cold snap severely damaged citrus, avocado, and some vegetable crops. Higher crop prices, especially for corn, generally increased farm income expectations and land values, and farmers in the Chicago, Kansas City, and Atlanta Districts intend to plant more corn in 2007. However, livestock operators noted a decrease in profits due to higher feed costs. Kansas City reported reductions in cattle herds in response to rising costs while Chicago noted that some livestock and dairy operators were exiting the industry.

Activity in the energy and mining industries continued at high levels in most Districts, but some Districts reported a slowdown from the previous survey. Atlanta and Dallas reported strong interest in offshore oil exploration, and oil and gas production in the San Francisco District remained strong. However, drilling activity slowed in the Kansas City District, and Dallas noted an overall easing in growth. Contacts in both of these Districts commented that high drilling costs were the main cause of the pullback in activity. High corn prices slowed the rapid expansion of ethanol production in the Minneapolis and Kansas City Districts. Minneapolis said that mining activity remained near capacity and that iron ore shipments were expected to rise. Coal production in the Cleveland District was flat, following recent reductions in coal prices.

Labor Markets and Wages, and Prices
Most Districts reported further expansion in labor markets and continued tight supply of skilled and professional workers. Boston noted aggressive hiring of health care workers and solid increases in technology employment. Services firms in the New York District also reported strong levels of hiring. Temporary help agencies in the Richmond District said demand for workers was robust, and staffing firms in the Cleveland District were upbeat about the current number of job openings. Reports on staffing services were more mixed in the Boston District, although demand for professional workers remained strong. Still, some sectors were reducing employment in a few parts of the country, including auto manufacturing in the St. Louis and Chicago Districts and construction in the Dallas District. Difficulties in finding workers persisted in many Districts, including Atlanta, where health

care and low-skilled tourism workers remained in especially short supply. Kansas City and Dallas noted continued shortages of engineers, oil field workers, and accountants.

With rising demand for many types of workers, wage pressures increased slightly in several Districts, although pay increases generally remained moderate across the country. New York reported widespread wage increases among non-manufacturing firms. Above-average wage increases were also reported for occupations in short supply in the Philadelphia, Richmond, Atlanta, and Dallas Districts. San Francisco and Kansas City reported slightly faster recent growth in non-wage compensation of workers, including bonuses and health-care benefits. Minneapolis said wage pressures were moderate outside of the energy sector, which has experienced double-digit wage increases.

Price pressures were little changed overall. Philadelphia, Cleveland, Richmond, and Kansas City reported increases in input costs, though Philadelphia said the rate of increase was lower than in the fall. And, Philadelphia and Cleveland reported steady retail prices. Chicago said raw materials prices were little changed at high levels. Boston reported an overall lessening in input costs, and most respondents expected their selling prices to remain stable or rise modestly this year. Similarly, New York noted stable input price pressures and steady consumer prices. In contrast, Richmond reporting an edging up of retail price inflation, and Atlanta noted that service firms have been more successful than others in passing costs on to consumers. Dallas said that prices fell for a number of products, including lumber, petrochemicals, and plastics. A number of other Districts also reported a continued moderation in energy prices and construction materials, most notably lumber and copper. San Francisco reported a decline in several raw materials prices in the agriculture, transportation, and electronics industries but noted a significant increase in food processing input costs, causing producers to raise prices in that industry. Food producers in the Kansas City District also noted rising input costs due to higher farm commodity prices. Cleveland and Dallas reported an increase in steel prices due to strong global demand and reduced import competition.

Return to top

First District--Boston

Revenue reports from First District business contacts suggest some softening since the last Beige Book. Most contacted retailers say revenues are down from a year ago. Manufacturers' results are mixed, and so are those of staffing firms. Software and IT services companies report demand increases, while real estate respondents say New England commercial markets continue to firm. Labor markets remain tight for skilled and technical workers.

Retail
Retail contacts in the First District, with little exception, report declining sales for the months of January and February. The negative report partly reflects the respondent group, which lacks any big-box or department stores. Same-store sales ranged from low to high double-digit decreases from a year earlier. The only exception was a pharmacy chain, which reported that same-store sales had increased around 8 percent.

A surplus and salvage store reports that sales have "not been good at all," with January being one of the worst months in the last five years. Same-store sales are down almost 9 percent, and customer count has dropped by about 6 percent. Fuel prices and the weather are cited as possible contributing factors. An auto-dealership association says sales continue to be "absolutely awful," as many dealerships are "trying to hold on." A home entertainment contact reports that total sales are down because of a sales fall off in the projection television category, partly attributed to losing market share to national discount chains.

Inventory levels are generally up because of the unexpected downturn in sales. Several retailers report reducing headcounts, and one contact notes "enormous" wage pressure. Capital spending is mixed.

A tourism contact reports that tourism and travel in the Boston metropolitan area has not been as strong as expected, particularly with regards to leisure travel. Business travel remains strong. Hotel occupancy is about 2 percent below expectations, and revenue per available room has decreased a little over 1 percent; room rates, however, continue to rise. The respondent was enthusiastic about the upcoming baseball season, and forecast that the recent signing of several new players to the Red Sox will boost tourism and travel, particularly foreign. Another tourism contact reports that the lack of snow has caused a "really tough winter" for the northern New England states. The new ownership of several major ski mountains in the region is expected to bring fresh management approaches.

Overall, most contacted retailers do not have a bright outlook. The tourism and travel outlook is mixed, with business travel expected to remain strong.

Manufacturing and Related Services
First District manufacturers and related services providers report mixed results for late 2006 and early 2007. Contacts report that weakness in the residential construction, automotive, and semiconductor sectors is causing sales and orders for plastics, home equipment and furnishings, and certain other equipment categories to be flat or down from year-ago levels. With some exceptions, makers of aviation, industrial and commercial construction equipment continue to experience strong or growing demand for their products.

Manufacturers indicate that metals and energy costs generally have stabilized or come down from their recent peaks. Some firms remain concerned, however, that energy price levels remain high, causing continued surcharges. With input cost pressures abating, respondents mostly expect their selling prices to remain stable or rise modestly in 2007.

Most manufacturing respondents expect their U.S. employment levels to hold steady or decrease in 2007. Firms are adding product development and sales positions while continuing to cut back on production and back office positions through outsourcing or relocation offshore. Finance, supply management, and machinist slots reportedly remain hard to fill. Average merit pay increases are expected to be typically in the range of 3.5 percent to 4 percent, the same as or slightly greater than in 2006. Very few contacted manufacturers plan to undertake significant domestic capital spending projects this year.

On the whole, manufacturers continue to expect their sales to increase in 2007, but some express concerns about the economy or their competitive position. Several contacts now warn that the weakness in housing markets may linger longer than they and others had anticipated.

Software and Information Technology Services
The majority of software and IT services contacts in the First District report high single-digit to low double-digit year-over-year revenue increases, with particularly strong growth in the health care segment. However, software firms serving New England's public sector are concerned that pressure on state and local governments' budgets will adversely affect that part of their business in the upcoming fiscal year. Most responding New England software companies have left selling prices unchanged as a result of a competitive market environment.

Contacted companies are generally adding technology workers, with companies serving the healthcare sector reporting that they are hiring aggressively in order to keep pace with demand. All of the firms with plans to hire report that the labor market remains tight, especially for specialized technical positions. Respondents report annual wage increases for most employees between 3 percent and 7 percent, with many firms increasing the wages of software engineers and software developers by more.

New England software and information technology firms are generally positive in their outlook, with most respondents anticipating steady growth for the first half of the year.

Staffing Services
Most responding New-England based staffing firms experienced a slower-than-usual holiday season in 2006, with business picking up again in early 2007. However, reports are mixed regarding demand levels and growth rates. One contact reports 40 percent top-line revenue growth in 2006, and states that business has been robust since the holidays. Another is less upbeat, reporting that business is "very, very slow" in the Boston area, and estimating that revenues for his firm are down about 7 percent since November. Reports from two other respondents fall between these two extremes.

According to New England respondents, demand for staffing services is highest in the high-end sectors including finance, biopharmaceuticals, engineering, and information technology (IT). This is consistent with the report from a contact at a large national staffing firm, who cites low single-digit revenue declines, both within New England and nationally, in the current period, but notes that the firm's professional business, which includes IT and engineering, is experiencing double-digit revenue growth.

Supply of skilled labor remains tight, but there has been no significant change since last quarter. Bill rates and pay rates are steady or up slightly, with most contacts suggesting that increases are a result of more high-end placements as well as short supplies of skilled workers. Contacts are fairly optimistic about the remainder of 2007, expecting business to either pick up slightly or hold steady.

Commercial Real Estate
Commercial real estate investment in Boston doubled from 2005 to nearly $8 billion in 2006 according to one regional real estate contact. Other regional markets have also seen considerable increases in commercial investment. Contacts note that real estate yields continue to decline as prices increase faster than leasing fundamentals.

Rents across the region remain steady to increasing while vacancies trend downwards. Boston's core business district features vacancy rates around 8 percent, with rents about $43 per square foot. Both Hartford and Providence exhibit stable rents and stable to decreasing vacancies. Contacts cite overall job creation and industrial growth for life science and biotechnology sectors as sources for improved leasing fundamentals. Selected suburban office markets around Boston and Hartford enjoy particularly low vacancies and increasing rents.

Contacts expect rents to continue to increase and vacancies to decline. Key concerns remain job creation and declining real estate yields.

Return to top

Second District--New York

The expansion of economic activity in the Second District has been essentially well-maintained, but scattered signs of deceleration have emerged since the last report. Consumer prices remain relatively stable, and input price pressures, overall, appear to be little changed from the last report, though there are some indications that wages have accelerated. Retailers indicate that sales were generally on plan in January and early February. There has been some pullback from the extraordinary levels of tourism activity seen in late 2006, and office hiring appears to have slowed a bit. Two regional consumer surveys showed confidence rising in January, with one index reaching a six-year high.

Manufacturers indicate that activity has rebounded in recent weeks and express optimism about the near-term outlook. Housing markets remain mixed: New York City's rental market has tightened further and rents have accelerated; however, the market for single-family homes across most of the District remains sluggish. Manhattan's tight office market slackened modestly in January. Finally, bankers report continued weakening in loan demand--especially for home mortgages--tighter credit standards, and a slight increase in delinquency rates on home mortgages.

Consumer Spending
Retailers report that sales were generally on plan in January and early February, with same-store sales running about 3-6 percent ahead of year-earlier levels. Prices for comparable goods are little changed from a year ago, though retail contacts generally indicate a continued trend in the mix of goods sold to more upscale lines. Contacts cite extensive gift card use in January, and note that the belated arrival of cold weather late in the month buoyed sales of winter apparel. Sales of home furnishings and equipment, however, remained sluggish. Retail inventories are said to be in good shape; in fact, one contact notes that sales gains were held back by a relative lack of clearance merchandise.

Two regional surveys indicate that consumers were in good spirits in early 2006. Based on Siena College's survey of New York State residents, confidence rose for the fifth month in a row, reaching its highest level since late 2000. The Conference Board survey of Middle Atlantic residents showed consumer confidence edging up in January but remaining modestly below last October's cyclical peak.

Tourism activity in the District has remained brisk, though there was a modest pullback from exceptionally high levels in New York City. Manhattan hotels report some deceleration in revenues in January. Still, both revenues and room rates were up 9 percent from a year earlier in January, versus gains of 12 percent in the fourth quarter. Similarly, Broadway theaters report that, since mid-January, both attendance and revenues have been running roughly 4 percent ahead of a year earlier, following gains of well over 10 percent in December and early January. Hotel occupancy rates in the Buffalo area have edged up, and bookings for upcoming events are reported to be strong.

Construction and Real Estate

New York City's office market eased slightly in January, though rents remain markedly above comparable 2006 levels. Midtown Manhattan's Class A vacancy rate rebounded to 6.0 percent--up from 5.6 percent in December, but still a ½ point lower than a year ago. In contrast, Lower Manhattan's vacancy rate slipped 0.3 points to 6.8 percent in January and was down dramatically from 12.3 percent a year ago. Throughout Manhattan, asking rents are up by 25 percent or more over the past 12 months.

Housing markets continue to be mixed. New Jersey homebuilders report that the market for new homes, though still soft, appears to have stabilized in early 2007. However, one contact notes that harsh weather in February has made it difficult to assess market conditions. Builders are reported to have scaled back construction plans and have moved inventories by reducing prices and offering concessions. However, in other areas, adjacent to New York City, the market is reported to be fairly resilient.

The market for existing housing has also been mixed, with continued sluggish demand for single-family homes, but persistent strength in demand for multi-family units--particularly in New York City. Buffalo area Realtors report that both sales and prices for single-family homes were running below year-earlier levels in January, though a pickup in sales and a slight rise in prices is noted in the Rochester area. More generally, single-family home prices across the District are reported to be steady to slightly lower than a year ago. In contrast, Manhattan's co-op and condo market has remained buoyant: thus far in 2007, both prices and the number of transactions are reported to be up from comparable 2006 levels. Manhattan's apartment rental market has grown increasingly tight; a large real estate firm reports that rents have accelerated in recent months and have eclipsed previous highs set in 1999 and 2000.

Other Business Activity

A major New York City employment agency, specializing in office jobs, reports that hiring activity has slowed a bit in recent weeks, though it is unclear how much of that is weather-related; still, this contact notes that there remains a thin supply of available workers and estimates that salary offers are up 5-6 percent from this time last year. More generally, non-manufacturing firms in the District, noting steady expansion in general business activity, report continued strong hiring plans and increasingly widespread wage increases in February. These firms also report fairly pervasive increases in prices paid overall. New York State manufacturers report a rebound in business conditions in February and continue to express widespread optimism about the near term outlook; more than one in three plans to expand its work force in the months ahead. Firms also indicate less widespread increases in both prices paid and prices received than in recent months.

Financial Developments

Contacts at small to medium-sized District banks report decreased demand for all types of loans--particularly home mortgages, where 52 percent of bankers report decreased demand. A substantial fraction of bankers reports tightened standards for all categories of credit--particularly in the commercial mortgage category--while virtually none reported eased standards. Bankers indicate a modest increase in rates on consumer loans, but steady loan rates in other categories. Increased average deposit rates were reported. Finally, bankers report a moderate increase in delinquency rates on residential mortgages but little or no change in delinquencies on other categories.

Return to top

Third District--Philadelphia

Economic conditions in the Third District improved slightly in February. However, not all sectors shared in the gains. Manufacturers reported just steady activity. Retail sales of general merchandise rose slightly, but auto sales remained soft. Bank lending increased modestly overall, but mortgage lending continued to decline. Sales of new and existing homes slowed further, but commercial real estate markets showed further signs of firming.

Third District business contacts generally expect business activity to continue to expand at a slow pace. Manufacturers expect demand for their products to increase. Retailers expect continued slight expansion in sales, but auto dealers do not foresee a turnaround in sales. Bankers anticipate increases in business and consumer lending, but they do not anticipate a resurgence of mortgage lending. Residential real estate agents and home builders said they see no clear signs that the downtrend in homes sales is coming to an end. Commercial real estate contacts forecast further increases in rents and declines in vacancy rates.

Manufacturing
Third District manufacturers reported a steady pace of shipments and new orders from January to February. Order backlogs edged down. Some makers of industrial materials and equipment noted increased demand for their products, but overall, reports of rising demand were offset by reports of falling demand. Capital spending by Third District manufacturers remained on the rise in February.

Manufacturers, on balance, expect demand for their products to increase. Among the manufacturers contacted in February, a little more than one-third expect their shipments and orders to rise during the next six months; just under one-fifth expect decreases. The outlook for improved business is fairly widespread among the major manufacturing sectors in the region, although forecasts are not quite as robust as they were last year.

Retail
Third District retailers contacted in February generally indicated that sales picked up from January and have been rising modestly on a year-over-year basis. Cold weather and clearance sales in mid-February helped stores clear out winter apparel. Sales of consumer electronics have also been strong, supported by discounting. Most of the store executives surveyed for this report described their inventories as tight as they began taking delivery of spring merchandise. Looking ahead, retailers expect sales growth to continue at around the current rate during the spring selling season.

Auto sales in the region remained sluggish in February. Compared to a year ago, sales of domestic makes continued to weaken, while sales of most foreign makes rose. Dealers said they do not expect a general improvement in sales, and they anticipate closings and consolidation among outlets.

Finance
The volume of loans outstanding at Third District banks rose moderately in February, according to commercial bank lending officers contacted for this report. Commercial and industrial lending edged up. Personal lending rose, especially credit card lending. However, demand for residential mortgages and home equity loans and credit lines continued to weaken.

Bankers in the District expect business and consumer lending to increase gradually in the next few months, but they do not expect residential mortgage lending to pick up. Although credit quality was generally described as good, some banks said they were seeing signs of weakening financial conditions among home builders and auto dealers.

Real Estate and Construction
Commercial real estate firms reported that vacancy rates in the region's office markets have declined slightly in the past few months. Rents have risen for newer buildings and tenant concessions have decreased, but effective rents have eased somewhat for older buildings. The amount of leased space has increased in most markets throughout the region. Commercial real estate contacts expect rents to remain on the rise and vacancy rates to continue to decline through the rest of the year. However, they expect office construction activity to moderate after several large buildings currently under construction or renovation are completed. Demand for industrial space remains strong, with rising rents and declining vacancies. Construction and sales of industrial buildings have been brisk, especially for warehouse and distribution facilities along the region's highways. Competition for prime locations has been pushing up the price of land suitable for industrial uses in many suburban areas.

Residential real estate agents and homebuilders surveyed in February indicated that sales were still declining. Real estate agents noted that the number of existing homes listed for sale has declined, although the average time houses are on the market before being sold has increased. Home builders have scaled back construction activity sharply, although some builders with projects underway intend to complete construction of the houses planned for those projects. Home builders reported a continued high rate of cancellations, and some have made significant price reductions to sell finished houses. Real estate agents indicated that price appreciation for existing homes has come to a virtual standstill. Although both builders and real estate agents said customer traffic has increased recently, they do not expect a clear signal of the trend in sales until they can gauge the strength of the usual spring upturn.

Prices and Wages
Business firms in the Third District noted increases in the costs of raw materials and other inputs in January and February, although reports of price increases were not as widespread as they were in the fall. Manufacturers noted increases in prices for metals and industrial equipment. However, they indicated that price increases in general have been less frequent in the past few months than they were last year. Retailers said selling prices have not changed much in the past few months.

Firms reporting on employment costs in February noted a generally steady trend of moderate wage increases. However, employers in a number of industries said they have had to raise salaries by more this year than last year in order to hire and retain workers in certain professional and managerial occupations, as well as for workers with higher skill levels in a variety of jobs.

Return to top

Fourth District--Cleveland

Economic activity in the Fourth District showed modest growth since early January with restraint from the auto and housing sectors tempering growth in others. Production by manufacturers was stable to increasing. Activity in commercial construction has increased while residential contractors report sales remain stable--at low levels. Post holiday sales by retailers were disappointing, weather being cited as a primary reason. Loan demand at banks was flat while core deposits and credit quality were characterized as stable. Overall, energy-related activity was flat to slightly down. And demand for trucking and shipping services continues to soften.

On net, employment across the District was reported to be holding steady. However, staffing firms remain upbeat about the number of job openings. Three-fourths of our contacts said that openings have increased over the past six weeks and on a year-over-year basis with the greatest demand seen in health care. With the exception of some energy-related businesses and retailers, wage pressures are largely contained. Several manufacturers and building contractors reported that material prices, especially metals, are rising. In response, some District manufacturers increased their prices; results were positive except in the auto and housing markets. Almost all retailers said that they continue to hold their prices steady.

Manufacturing
District manufacturers reported production levels were stable to increasing since early January, with the most notable increases at capital goods producers. On a year-over-year basis, several manufacturers reported lower production--mainly related to weakness in the auto and construction markets. For example, most steel producers reported lower shipments on year-over-year basis with several citing weakness in the auto and residential construction markets. Nonetheless, District auto plants, which mainly assemble small to mid-sized vehicles, reported increased production on a month-over-month and year-over-year basis. Several contacts noted that increased production is attributable to competition for market share versus real market growth.

The outlook expressed by most manufacturers is best described as steady to increasing. Steel producers are expecting a pickup in demand during the second quarter. Capital expenditures were on-plan for almost all manufacturers as few were concerned about their capacity utilization rates. About one-third of our contacts indicated they are planning to increase capital spending during 2007 with four producers planning major expansions. A majority of producers reported a rise in input prices--particularly for metals--since early January. In response, about half of our contacts said they increased their prices. Most were successful except in the auto and housing markets. Hiring was limited during the past six weeks; however almost half of our contacts said they plan to add jobs during the remainder of 2007. Wage pressures are largely contained; although, several manufacturers reported that benefit costs continue to rise.

Construction
New home sales over the past six weeks have been stable--but at low levels--and down on a year-over-year basis. Looking forward, almost all residential contractors expect activity in 2007 will be similar to the second half of 2006. Builders were encouraged by an uptick in traffic and inquiries. Home prices are reported as stable to slightly down since early January. Discounting continues to be used as a way of moving existing inventory. Material costs have stabilized for the most part with a majority of contacts reporting a decline in lumber prices. Most builders have no plans at this time to lay off additional workers. Activity among the District's commercial contractors has increased for the most part since early January and on a year-over-year basis. A majority of builders are optimistic in their outlook for 2007 based on the level of inquiries and backlogs. Segments showing strong activity include health care, public works, and recreation. Reports on material costs were mixed with most builders saying that prices for concrete and steel are high and continue to rise. In contrast copper prices continue to fall. Almost all contractors are holding their prices steady with little change in profit margins. On net, there was little change in labor force size.

Retail
Post holiday sales by District retailers were disappointing with several citing the prolonged cold weather as the primary reason. Expectations for Q2 of 2007 are mixed; however, more than half our contacts anticipate stronger sales. In general, supplier prices and other input costs have remained steady over the past six weeks. Hiring continues to be limited to new store openings and turnover. Several contacts reported wage pressures related to pending minimum wage increases. New car and truck sales during January and February were characterized as slow with better results for foreign makes and used vehicles. Looking forward, expectations were less than positive for vehicle sales, especially SUVs.

Banking
Since early January loan demand was generally flat; however, a few bankers reported a slight uptick in commercial loans and a small decline in consumer lending. The market for auto loans and mortgage products can best be characterized as soft. District bankers reported stability in core deposits and credit quality with a slight increase in delinquencies. Business and consumer confidence was mixed at the beginning of the year with most sentiments ranging from cautious to improving.

Energy
On net, energy-related activity was flat to slightly down across the District. Coal producers reported decreases in spot prices ranging 10 to 20 percent since early January and 20 to 40 percent on a year over year basis. Production was mixed with half our contacts showing increased levels year-over-year and half reporting declines. Exporting District coal is not viable at this time due to the combination of high sulfur content and low prices. Minimal wage pressure was reported and there are no plans to hire additional workers. Oil and gas producers reported production levels were flat to slightly down. In addition, several contacts reported continuing wage pressures.

Transportation
Demand for trucking and shipping services continues to soften with most contacts reporting a decline in shipments of auto-related products. One contact also noted a drop in carpeting and latex deliveries. Although fuel costs remain relatively stable, trucking companies

continue to pass on fuel costs using surcharges and anticipate doing so into the foreseeable future. Wages remained steady since the beginning of the year.

Return to top

Fifth District--Richmond

Economic activity in the Fifth District continued to expand modestly since our last report, with further softness in big-ticket sales and manufacturing shipments offset by stronger growth in services activity. Retail sales weakened in recent weeks, partly because of lackluster sales of domestic automobiles. Gauges of manufacturing activity again softened, with textiles and furniture firms reporting notably weaker demand. In contrast, activity at District services firms expanded at a quicker pace, and contacts were a bit more optimistic about their prospects going forward. District housing markets showed broader signs of firming, with sales edging higher in many areas. Home prices, however, generally continued to be flat to slightly lower. District labor markets remained tight, with skilled workers in short supply and some evidence of higher wages. Price pressures were mixed, with higher energy prices a concern. In agriculture, livestock were in generally good condition as were winter small-grain crops.

Retail

Retail sales weakened since our last report, pulled down in part by declining big-ticket sales. Contacts at apparel stores in Charleston, W.Va., and in Columbia, Md., said the pace of clothing sales slowed. Sales also slowed at some pharmacies in the Carolinas. In contrast, several District grocers reported that revenues grew more quickly over the period. Reports on furniture sales were mixed--sales increased at a store in central Maryland, while the owner of a West Virginia furniture store said sales were flat in recent weeks. Automobile dealers told us that domestic brands continued to lose market share to imports. However, a central West Virginia dealer said he had increased his inventory of U.S.-made minivans; he expected demand for the vehicles to exceed local supply as manufacturers phase out production of those vehicles. Retail wages grew more quickly, although retailers continued to trim jobs. Retail price growth edged higher.

Services

Revenue growth rose sharply at District services firms in recent weeks. Contacts at some construction-related services businesses, such as floor finishing and HVAC firms, told us that demand for their services remained strong. Demand for accounting and legal services strengthened and hospitals in central Virginia and in Maryland also reported increased demand for their services. Employment at service-producing businesses grew on pace with our last report, while growth in wages escalated. Prices in the sector also grew more quickly.

Manufacturing

District manufacturing activity continued to lose momentum in January and February after contracting modestly in December. Manufacturers told us that the decline in factory shipments, new orders and employment deepened since our last report. Product demand was notably weaker in the apparel and textiles, fabricated metals, furniture and paper industries. A furniture manufacturer in North Carolina said the industry was in dire straits, and that price cutting was rampant. A textile manufacturer in North Carolina expressed similar sentiments. He told us that his firm had sold part of its business and was in the process of shuttering a plant in Virginia. In contrast, a producer of electrical components in Maryland indicated that business at his firm was off to a good start--noting strong sales during the first two months of 2007. Energy and other raw material prices rose in recent weeks after tapering off in January, while finished goods prices continued their downward trend.

Finance

District bankers reported little change in lending activity in recent weeks. Residential mortgage loan demand was characterized as steady throughout the District. A Charleston, S.C., contact noted that interest rates "popped up" a bit in January, which he speculated may have constrained activity somewhat. A Charlotte, N.C., banker said that a pickup in the demand for second homes was largely offset by a fall in speculative demand. A few contacts noted that borrowers were moving from adjustable rate loans to fixed rate loans. In addition, there were scattered reports of slight increases in late payments and delinquent mortgage loans throughout the District. Commercial lending remained strong.

Real Estate

Residential real estate agents reported that housing markets generally held up since our last report. A number of respondents said residential sales were steady. However, an agent in Washington, D.C., told us that sales in her area had been more active and that she had recently seen multiple offers on a few properties. Contacts also reported that condominium sales and listings rose in the Washington, D.C., area. Likewise, contacts in that area and in Asheville, N.C., reported that condominiums had become hot commodities, in part because builders were aggressively offering incentives to attract buyers. House prices held steady across much of the District, although contacts in some areas reported somewhat lower prices. While low- to middle-price homes remained the best sellers Districtwide, a contact in Washington, D.C., told us that finding houses in this category was difficult because of a lack of inventory.

Commercial real estate agents gave generally mixed reports. A Washington, D.C., contact said that retail leasing activity slowed in recent weeks due to "some resistance to high rents and less optimism going forward." A northern Virginia agent noted softer demand for office space, though he said that rental rates remained strong despite recently higher vacancy rates. In contrast, the Raleigh commercial market continued to strengthen since our last report. The office and industrial segments were particularly active with lower vacancies and higher rents. Most other areas in the District reported little change in recent weeks.

Tourism

Tourist activity was somewhat weaker since our last report. A manager at a ski resort in Virginia told us that his business was experiencing the worst ski season in 16 years. He attributed the decline in the number of skiers to unusually warm weather in January, noting that even with colder weather in February, it was virtually impossible to catch up. Tourism along the coast was mixed. A contact in Myrtle Beach, S.C., reported that bookings for the Presidents' Day weekend were somewhat stronger than last year, while a respondent from the Outer Banks of North Carolina indicated that holiday bookings were flat.

Temporary Employment

Temporary employment agencies in the District reported generally strong demand for workers in recent weeks. An agent in Raleigh, N.C., expected demand for workers to rise over the next few months because of both business relocations as well as expansions of existing businesses. In Richmond, Va., an agent told us that she anticipated a stronger need for temporary workers because of the area's low unemployment rate. Workers with customer service, sales, accounting, bilingual and admin skills remained highly sought across the District.

Agriculture
Weather conditions varied widely during most of January and February as warmer-than-normal periods of mild, dry weather were followed by ice and snow. A contact in Maryland noted that the generally mild winter had been positive for livestock, and a contact in Virginia said that although some livestock were grazing pastures, most farmers continued the feeding of hay. In addition, contacts reported that small grain crops were in good condition in most areas of the District.

Return to top

Sixth District--Atlanta

Reports from District contacts indicated, on balance, that business activity continued to expand modestly in January and February. Merchants reported that retail sales were similar to year-ago levels, while auto sales continued to be sluggish in most of the District. Tourism reports were generally positive. Most Realtors and homebuilders noted that residential sales and construction remained below year-ago levels, although declines have moderated relative to late in 2006. Meanwhile, robust activity in the nonresidential sector was sustained. Manufacturing and transportation reports continued to vary by industry segment. Labor markets remained tight in several industries, and there were more reports of rising labor costs. Agriculture contacts noted that higher corn and soybean prices have led some crop farmers to shift away from cotton.

Consumer Spending and Tourism
Most District contacts reported that sales in January and February were similar to year-ago levels and in line with expectations. The majority indicated that they were pleased with inventory levels. Several retailers noted that the advent of cooler temperatures boosted apparel sales. Overall, District contacts anticipate modest sales growth over the next several months. Import distributors and domestic dealers reported that auto sales remained sluggish in most parts of the District, with only South Florida contacts noting stronger sales.

Tourism reports were mostly positive in January and February. Mississippi contacts reported that Gulf Coast casinos, although fewer in number, were doing more business than before Hurricane Katrina. Tourism indicators for New Orleans continue to show some improvement. However, airlines have not brought back all of their pre-Katrina flights, and business, tourist, and convention travel remains below pre-Katrina levels. For instance, flights into New Orleans for the year are reportedly at 60 percent of the 2004 level. Florida contacts gave mixed reports, with strength in the fourth quarter of 2006, helping to offset some of the weakness earlier in the year. Florida officials expect business travel, including conventions and conferences, to increase moderately this year, but domestic leisure travel to the state is forecast to be flat in 2007. Contacts also noted that international travel is experiencing strong competition from other destinations as well as the negative consequences of tightened U.S. entry requirements.

Real Estate
Most District housing contacts reported that both new and existing home sales remained

below year-ago levels in January. However, they added that the declines were moderating. Persistence weakness was most heavily noted in parts of Florida. Throughout the District, homebuilders and real estate agents noted that inventories exceeded year-ago levels. The outlook among real estate agents for the next several months was mixed, with Florida contacts again voicing the most pessimism. Home construction is expected to remain weak in most Florida markets, while elsewhere in the District activity is anticipated to be similar to year-ago levels.

Nonresidential construction in the District remained at healthy levels. Contacts reported that demand for commercial development continued to be strong in January and February. Vacancy rates remained low in several markets and rental rates were trending upward.

Manufacturing and Transportation
Reports from the manufacturing sector in January and February continued to vary by industry. Weaker reports came from producers of construction-related materials, reflecting the downturn in residential construction. Weak auto sales also fed through to production as Nissan recently announced plans to reduce payrolls at two manufacturing plants in Tennessee. Meanwhile, a regional power company reported energy sales for industry were slightly below year-ago levels, which was attributed partly to textile mill closures. More positively, contacts said that the steel business was still good with firms reporting profits above those of a year ago. A producer of electrical machinery reported increasing new orders and a lengthening factory workweek. A Japanese parts supplier for the Honda plant in Lincoln, Alabama, announced the opening of a new facility in the state.

Trucking contacts reported lackluster business conditions in January. Two large regional transportation companies recently reported lower than expected revenues, partly because of weaker demand from homebuilders. Rail contacts said that fewer freight shipments of lumber and other construction-related cargoes were somewhat offset by strong international inter-modal traffic.

Banking and Finance
Banking conditions in the District were largely unchanged in early 2007. Overall credit quality remained strong, but there were reports of increases in mortgage delinquencies in some parts of the District. Most of the mortgage-related credit problems were said to be in the sub-prime component. Commercial loan demand was described as stable and competition for deposits was reportedly intensifying.

Employment and Prices
Business contacts reported that hiring remained positive in January and February. Tightness in labor markets have resulted in rising wage pressures in some areas. Upward pressures were noted most in highly-skilled and professional occupations. For instance, a firm that provides temporary personnel to both manufacturing and defense/aerospace companies had to increase wages to attract technical workers – a trend that is expected to continue. Meeting the growing demand for healthcare workers, particularly nurses and laboratory technicians, remains a challenge for employers in the medical industry. Some reports also noted difficulties finding and retaining low-skilled workers, especially in the leisure and tourism industry.

Rising benefit costs were noted by several employers. Some indicated that they have had to increase benefit packages in order to attract quality applicants and to retain existing staff. Several manufacturers commented on the high cost of health insurance.

Prices for some construction components continued to decline, and several subcontractors reported that they were cutting prices on projects to maintain workflow. Some metals costs have softened, but were still high compared with two years ago. At the retail level, service firms continued to be more successful than merchandisers in passing on price increases to their customers.

Agriculture and Natural Resources
Winter rains slowed plantings in some areas, but eased drought conditions in Florida. Rising prices for corn and soybeans relative to cotton has prompted growers to substitute acreage; the District's cotton acreage is expected to be more than 20 percent lower in 2007 compared with 2006. High oil prices continued to spur interest in new deepwater drilling in the Gulf of Mexico.

Return to top

Seventh District--Chicago

Economic activity in the Seventh District continued to expand at a modest pace during January and early February. Consumer spending and business outlays and hiring all rose at rates similar to those recorded late last year. Residential construction and real estate activity declined further in most areas. Nonresidential construction expanded at a slower pace than in the previous reporting period. Manufacturing activity continued to be sluggish for most of January, but activity firmed in recent weeks. Household lending moderated further, while commercial lending remained at solid rates. Overall, nonwage price pressures were little changed, and wage increases were similar to those in the previous reporting period. Corn and soybean prices moved up, hurting the margins of livestock and dairy producers.

Consumer Spending
Consumer spending continued to increase at a gradual rate. Retailers said the latest year-over-year comparisons were boosted by the growing popularity of holiday gift cards and their redemptions in January. The most notable area of strength continued to be electronics, with particularly strong demand for flat-screen TVs. Valentine's Day sales were solid. Inventories were in line with desired levels. Vehicle dealers reported generally steady sales between January and early February. Several contacts noted that light trucks were regaining market share from more fuel efficient cars. A restaurant chain said that sales were stronger than expected in January, though activity was slower in February, in part due to inclement weather. In contrast, cold and snowy weather stimulated winter-sport tourism activity in Michigan.

Business Spending
Business spending and hiring rose again in the District. Capital spending increased at solid rates. A retailer reported increased outlays to renovate existing stores. Steel forgers were reportedly expanding capacity significantly. Employment continued to increase gradually on net. A staffing services firm reported steady growth in billable hours. The demand for manufacturing workers was mixed by industry. Toolmakers were trying to increase staffing, but found it difficult to find qualified workers, and a pharmaceutical firm noted a significant

increase in job openings. In contrast, auto suppliers and vehicle manufacturers continued to lay off workers. Retailers and banks said they were holding employment steady at current levels. A labor market analyst in Illinois expected solid growth in employment to carry forward through 2007, with the strongest gains in business services and health care.

Construction and Real Estate
Residential construction continued to fall, both from a year ago and from the last reporting period. Some of the recent weakness reflected weather-related disruptions. However, one Chicago-area developer thought there has been little change in the underlying trends. Builders reported a large supply of unsold, speculative homes on the high end, while the supply of spec homes in other segments of the market was edging down. An industry analyst said the number of existing homes on the market was declining as well, in part because homeowners were pulling their listings in order to wait for more favorable market conditions. A contact from Chicago reported that condo developers were waiting to pre-sell a substantial portion of units before starting construction on new projects. According to one analyst, over three-fourths of builders in the Chicago-area were adding non-price incentives, the highest percentage the contact had seen. In contrast, home prices in the Des Moines area were appreciating faster than one contact expected. Nonresidential construction expanded from a year earlier, albeit at a slower pace than in the previous reporting period. Office construction in downtown Chicago was particularly strong, and the development of health care facilities was robust in many areas. A contact in Indiana said a number of speculative "big box" warehouses were under construction, and that net absorption in those properties was strong. Office rents were increasing in Chicago, but remaining flat in the Detroit area. Commercial vacancy rates were little changed.

Manufacturing
Manufacturing activity continued to be sluggish for most of January, but activity firmed in recent weeks. A steelmaker reported some signs of increases in activity, including inquiries for large orders; the contact expected a solid level of demand in the first quarter but "no frenzy." Steel inventories remained high but were starting to move lower. A forging company noted that high inventories at service centers led the centers to cut back ordering, but direct orders from final customers continued to flow. Manufacturers of machine tools and equipment parts reported a noticeable pickup in demand during February, and the U.S. market for heavy equipment improved a bit from the end of last year. But contacts thought that domestic demand for heavy equipment overall had peaked about a year ago. Furthermore, there were new signs of weakness in the highway and coal mining segments, though demand for farm tractors continued to increase in response to high crop prices. Production of heavy-duty trucks remained solid. However, production was expected to tail off starting in late February, as manufacturers work through the supply of engines they had stockpiled before stricter emissions requirements took effect at the start of the year. Industry analysts lowered their forecasts for trailer sales, noting that some shippers were delaying purchases and some large retailers were cutting capital expenditures. Automakers indicated that light vehicle sales in February were running below plan but said they had not adjusted their assembly schedules in response. The weakness in residential construction continued to damp sales of wallboard, and one supplier said it had shortened its workweek and cut back on overtime.

Banking and Finance
Household lending activity moderated further from the previous reporting period, while commercial lending continued at solid rates. Mortgage applications for home purchases

declined, following what one contact believed was a weather-induced blip up around the change of the year. Applications for refinancing continued to be low. Demand for new home equity loans decreased, while outstanding balances were flat. Delinquency rates on mortgages and home equity loans remained at low levels overall, although there was a noticeable deterioration in the sub-prime segment. Retail deposit growth slowed. Business lending was mixed by loan type: asset-based lending to middle market customers was strong; equipment leasing activity continued to show solid increases; while commercial real estate lending was steady. Commercial lending conditions continued to be competitive, and interest rate margins were narrow.

Prices and Costs
On balance, nonwage price pressures were little changed, and overall wage increases were similar to those in the previous reporting period. Raw materials prices were little changed at high levels. However, most contacts expected to see declines as the year progressed. Some manufacturers in sectors where demand was strong, such as toolmaking, were able to pass along the high costs, while others, such as auto suppliers, said they were pressured to keep prices low. Retailers in Michigan reported smaller increases in prices, while a restaurant chain said higher poultry costs were leading to higher average ticket prices. A temporary help firm reported steady increases in billing rates for most of the District. A manufacturer was budgeting a higher increase in its merit-pool this year but said the increase was in line with its improved performance.

Agriculture
Corn and soybean prices rose in late January and February, both reaching the high levels relative to years. Farmers still planned to plant more corn and fewer soybean acres this year. Some, however, reconsidered their allocations as soybean seed costs moved lower and specialized soybean varieties for trans-fat free oils were earning higher premiums. Farmers showed interest in expanding their acreage, generating higher demand for both the purchase and rental of farmland. With regard to the upcoming growing season, one contact noted that the relatively late cold weather during the reporting period diminished the risk of pest problems. Higher feed costs hurt the net income of livestock and dairy operations, leading to some exits from the industry. Distillers grains from ethanol plants did not provide relief from high feeding costs, in part because of shipments going outside the District.

Return to top

Eighth District--St. Louis

Economic activity in the Eighth District increased more slowly in the period since our previous report. Manufacturing activity continued to soften, while the services sector continued to expand. Retail sales in January and early February increased over a year ago, while auto sales were flat over the same period. Home sales were mixed throughout the District, while commercial real estate market conditions continued to improve. Overall lending activity at a sample of District banks was mostly unchanged during the fourth quarter of 2006.

Consumer Spending
Contacts reported that retail sales in January and the first half of February were up, on average, over year-earlier levels. About 75 percent of the retailers surveyed saw increases in sales, while 17 percent saw decreases. Approximately 41 percent of the retailers noted that

sales levels met their expectations, 45 percent reported that sales were above expectations, and 14 percent reported sales below expectations. Apparel and electronics were strong sellers, while seasonal items moved more slowly. About 73 percent of the contacts noted that inventories were at desired levels, 18 percent reported that inventories were too high, and 9 percent reported that inventories were too low. About 66 percent of contacts expect increased sales over 2006 in March and April, 21 percent expect sales to be the same, and 13 percent expect decreased sales.

Car dealers in the District reported that, compared with last year, sales for January and the first half of February were flat, on average. About 52 percent of the car dealers surveyed reported a decrease in sales, while 35 percent reported an increase. About 33 percent of the car dealers noted that used car sales had increased relative to new car sales, while 8 percent reported the opposite. Also, 38 percent reported an increase in low-end vehicle sales relative to high-end vehicle sales, while 8 percent reported the opposite. About 13 percent of contacts reported more rejections of finance applications, but 8 percent reported more acceptances. About 25 percent of the car dealers surveyed reported that their inventories were too high (mostly on high-end and new vehicles), while 17 percent reported that their inventories were too low (mostly on low-end and used vehicles). About 71 percent of the car dealers said they expect increased sales over 2006 for the next two months, 21 percent expect sales to be the same, and 8 percent expect decreased sales.

Manufacturing and Other Business Activity

Manufacturing activity slowed 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 steel product and machinery industries announced plans to open or expand facilities in the District. In contrast, firms in the auto parts, plastics, apparel, food, furniture, paper product, and electronic product industries reported plans to close plants within the District. Firms in the motor vehicle, plastics, and household appliance industries reported plans to conduct significant lay offs. Contacts in the plastics, primary metal, and raw material manufacturing industries reported slow orders.

The District's services sector continued to expand in most areas. Contacts in the freight transportation, water transportation, and traveler accommodation services industries reported plans to open new facilities or hire additional workers. In contrast, a contact in the financial services industry reported plans to lay off workers.

Real Estate and Construction

Home sales were mixed throughout the Eighth District. Compared with January 2006, January 2007 home sales were unchanged in St. Louis and Louisville but fell 2 percent in Little Rock and 2.7 percent in Memphis. Residential construction declined throughout the District. December 2006 year-to-date single-family housing permits fell in every metro area compared with the same period in 2005. Permits declined 28 percent in Louisville, 25 percent in St. Louis, and 12 percent in Memphis and Little Rock.

Commercial real estate market conditions continued to improve throughout the District. The 2006 fourth-quarter industrial vacancy rate declined in Memphis and Louisville over the third quarter, while the industrial vacancy rate increased in St. Louis. During the same period, the office vacancy rate declined in St. Louis, Memphis, Louisville, and Little Rock. Contacts in northeast Mississippi report that commercial development is strong. Contacts in west Tennessee reported that January 2007 commercial permits increased substantially over January 2006. In Louisville, contacts report that the outlook for the 2007 industrial market is positive with a few reservations, and contacts in St. Louis predict a healthy industrial market for 2007.

Banking and Finance
A survey of senior loan officers at a sample of District banks showed little change in overall lending activity during the fourth quarter of 2006. During this period, credit standards and demand for commercial and industrial loans remained basically unchanged for both large and small firms. During the same period, credit standards for commercial real estate loans tightened somewhat, while credit standards for residential mortgage and consumer loans remained basically unchanged. Demand for commercial real estate loans remained unchanged, while demand for both residential mortgage loans and consumer loans ranged from unchanged to moderately weaker.

Agriculture and Natural Resources
Despite extremely cold weather at the end of January, winter wheat is mostly in good condition throughout the District except in Missouri, where it is mostly in fair to poor condition. Reflecting increases in both prices and crop yields, the total value of all District field crops rose by 34 percent from 2005 to 2006. Arkansas, Illinois, Indiana, Kentucky, and Missouri had increases of at least 20 percent, while Tennessee had an increase of 12 percent. In contrast, the total crop value in Mississippi declined by 7 percent from 2005 to 2006.

Return to top

Ninth District--Minneapolis

Economic activity in the Ninth District increased slightly since the last report. Growth was noted in consumer spending, manufacturing, agriculture and commercial real estate and construction. Meanwhile, tourism, energy and residential real estate and construction activity decreased, and mining was flat. Labor markets remained relatively tight in a number of areas, but overall wage increases were moderate. Overall price pressures were modest as some price increases for materials and energy continued to moderate.

Consumer Spending and Tourism
Overall retail sales increased moderately. A major Minneapolis-based retailer reported same-store sales up about 5 percent in January compared with a year ago. A Minneapolis-area mall manager noted that sales in January were strong and that traffic was brisk during President's Day weekend. In Montana, a mall manager noted that overall sales in January were up from a year ago, particularly at national chains. A mall manager in North Dakota reported that sales in January were about even with a year ago, but also noted that a number of new retail stores have opened in the area. January sales and traffic at a South Dakota mall were about even with a year ago.

According to an auto dealer in Minnesota, during the past two months, the number of buyers was lower than a year ago; purchases of imported vehicles were up, but sales of domestic vehicles were down. A representative of an auto dealers association in Minnesota noted that recent traffic in stores selling domestic vehicles was very slow and that some dealerships have closed or plan to close.

Winter tourism activity was lackluster. A lack of snow hampered snowmobiling and cross country skiing activity in many portions of northern Minnesota and Wisconsin. In the Upper Peninsula of Michigan, a tourism official noted that snowmobiling conditions improved by mid-January, but the slow start will result in a down year. Bitterly cold weather slowed lift ticket sales at a ski resort in northern Minnesota. In contrast, Montana is having a good winter season, according to a tourism official. Ski resorts have reported solid revenue, particularly in February, and snowmobiling in Yellowstone picked up compared with the past few years.

Construction and Real Estate
Commercial construction was up. An industry publication forecasted activity in Minnesota and the Dakotas to be up slightly in 2007 from the strong activity last year. Authorities approved construction of a $300 million oil pipeline in Minnesota this year. A large railroad announced plans to make $54 million in track improvements in Montana. Developers in Sioux Falls, S.D., began purchasing land for a $150 million mixed-use downtown redevelopment. Market analysts predict an expansion of retail and industrial construction in Minneapolis-St. Paul this year. However, residential construction saw continued weakness. Residential permits in the Minneapolis area were down 38 percent in January from a year earlier. A shift toward multifamily construction was noted in several areas, including Minneapolis and Rochester, Minn.

Commercial real estate was robust. The overall office vacancy rate in Minneapolis-St. Paul at the beginning of the year was almost a full percentage point lower than a year earlier; landlords are becoming more aggressive in pushing up rents. Strong demand for retail space was noted in Minneapolis-St. Paul and Sioux Falls. In contrast, residential real estate activity remained slow. New home sales listings in Minneapolis-St. Paul during early 2007 were relatively high, but lower than the same period a year ago. However, Realtors in Fargo, N.D., and Sioux Falls reported steady activity. Contacts in western Montana reported slowing growth in residential real estate markets there. A turn in residential rental properties toward lower vacancies and increasing rents was noted in several markets in the District, including Minneapolis-St. Paul, St. Cloud, Minn., Sioux Falls, western Montana and Fargo-Moorhead.

Manufacturing
Activity in the manufacturing sector grew modestly since the last report. A January survey of purchasing managers by Creighton University (Omaha, Neb.) indicated flat manufacturing activity in Minnesota and increased activity in the Dakotas. In South Dakota, a maker of radiators and heat exchangers plans to build a new plant, a plastics company is building a new facility and a farm equipment manufacturer is expanding production. In Minnesota, a large water filtration product manufacturer expects continued growth in its industrial and commercial markets. However, several companies that produce inputs for the home building market noted a downturn in demand.

Energy and Mining
Activity in the energy sector decreased since the last report, and mining activity was flat at high levels. Oil and gas exploration in the District decreased from previously reported amounts. Meanwhile, a Bank director noted that some of the planned ethanol projects are on

hold, while wind energy projects continue to advance. Mining production remained at near capacity across the District. Another Bank director noted that activity in the Duluth-Superior harbor should be up in 2007, partially due to increased iron ore shipping.

Agriculture
Agricultural activity increased since the last report. Preliminary results of the Minneapolis Fed's fourth-quarter (January) agricultural credit conditions survey indicate that lenders expect overall agricultural income to be up slightly in the first quarter of 2007 due to higher selling prices and some lower input costs. The U.S. Bureau of Land Management and the Forest Service decreased the fee ranchers are charged to graze animals on federal lands. Unfortunately, tuberculosis was found in a South Dakota cow for the first time in more than three decades, which may increase costs for ranchers if additional animals are infected.

Employment, Wages and Prices
Labor markets remained relatively tight in a number of areas. A food processing plant in North Dakota has actively recruited employees outside of the state. An aerospace components manufacturer and a regional jet maintenance facility in Montana each recently announced plans to hire more than 100 employees during the next year or two. A Montana construction contractor said that this was the tightest labor market in three decades. In contrast, the closing of two popcorn plants will result in 200 fewer jobs, and a specialty printer laid off 100 workers in Minnesota.

Wage increases were moderate. A union for janitors who clean office buildings and skyways in the Minneapolis-St. Paul area recently agreed to a 10 percent raise over three years and increases in health care coverage. However, in western Montana, double-digit wage increases were reported as oil drilling operations in the area have led to extremely tight labor market conditions.

Overall price pressures were modest as some price increases for materials and energy continued to moderate. Lumber prices were down about 10 percent compared with a year ago. Minnesota gasoline prices increased about 25 cents in mid-February from a month earlier, and were 10 cents higher than a year ago. Prices for copper were lower in the past couple of months; however, futures prices recently inched up. In contrast, Bank directors noted that prices for heavy equipment tires continued to escalate. In addition, rail freight rates were notably higher than a year ago.

Return to top

Tenth District--Kansas City

The Tenth District economy continued to expand at a modest pace in late January and February. Consumer spending was limited by poor weather conditions across the District. Signs of stabilization in residential real estate activity emerged and commercial construction activity remained solid. Manufacturing production strengthened and capital investment rose. Energy production fell slightly below year ago levels. Agricultural conditions improved overall with high crop prices, although livestock profits declined. District labor markets continued to expand at a solid pace and wage pressures were less intense. Overall, price pressures held steady and contacts expected prices to remain stable in coming months.

Consumer Spending
Consumer spending was limited in late January and early February partly due to poor weather conditions across the District. Extreme cold, heavy snowfall and icy conditions limited store traffic, and retail malls reported slower sales compared to last year. However, retail contacts viewed the slowdown as temporary and anticipated stronger sales in coming months. Electronics and luxury items continued to sell well while home furnishing and appliance sales were relatively weak. Auto sales were flat from the last survey with dealers reporting a slight drop in vehicle inventories. SUV and truck sales continued to strengthen with lower gas prices and inclement weather boosting demand. Dealers expected sales to improve further over the next few months. Travel and tourism activity remained solid in late January and early February. District hotels continued to report high occupancy rates, and airport traffic was stable after weather disruptions over the holidays. Heavy snowfalls benefited the ski industry and mountain resort areas.

Manufacturing
Manufacturing activity strengthened since the last survey period. Plant managers reported a sharp rise in production and new orders in February. The volume of shipments continued to rise, although some contacts reported that poor weather limited sales and shipments. Lower inventories of finished goods contributed to a surge in order backlogs. Most industries reported robust activity, led by machinery and high-tech equipment production. Plant managers expressed more optimism about near-term output than in previous surveys and expected capital expenditures to rise. Managers expected longer work weeks with some additional hiring to meet production demand.

Real Estate and Construction
Residential real estate activity showed some signs of stabilization in late January and early February, while commercial real estate activity remained solid. Though residential sales remained below year ago levels, real estate agents reported an uptick in sales since the last survey, primarily for low to moderate priced properties. Weakness continued in markets for condominium and upper priced homes. Inventories of homes were still well above year-ago levels but the number of unsold homes dropped slightly from the last survey period. Home inventories were expected to gradually decline in the months ahead, with a continued drop in construction starts and reports of increased buyer interest. Home prices were steady in most cities and still well above year ago levels in Albuquerque. Commercial real estate activity continued at a solid pace. Absorption of office space increased in most cities, and vacancy rates continued to decline throughout the District. Office prices and rents increased further, though sales were flat since the last survey. Commercial real estate contacts expected more new construction in the months ahead.

Banking
Bankers reported that both loans and deposits increased somewhat since the last survey. Demand for commercial and industrial loans and commercial real estate loans rose, while demand for residential mortgage loans edged down. On the deposit side, interest bearing deposits such as CDs and money market deposits were slightly higher than in the prior period. Lending rates and lending standards were reportedly unchanged.

Energy
Energy activity slowed further, but remained high by historical standards. The count of active oil and gas drilling rigs in the region fell when compared with the previous survey. The recent decline was more concentrated in the Rocky Mountain area where

weather conditions limited activity. Contacts throughout the District continued to report high costs to drill, equip, and produce wells, although these cost pressures were less intense when compared with previous surveys. Most contacts anticipated drilling activity to decline, as energy prices remained below year ago levels. The expansion in District ethanol production was also expected to slow, with high corn prices and crude oil prices below year ago levels.

Agriculture
Agricultural conditions improved overall in late January and early February. The winter wheat crop was in good condition with early moisture followed by protective snow cover. Elevated crop prices, mainly for corn, boosted in farm income expectations, and District contacts expected farmers to plant more corn in 2007. Severe winter weather hurt the cattle industry with some reports of increased livestock deaths. Cattle producers paid higher feed costs, and some reduced herd size due to lower profits, adverse winter weather, and the lack of forage. Overall, high crop prices strengthened farm financial conditions as loan repayment rates rose and loan renewals and extensions fell. Farm balance sheets strengthened as higher crop prices boosted cash rents and land values.

Labor Markets and Wages
Labor markets continued to expand in the District, but wage pressures moderated. Hiring announcements continued to outpace layoff announcements in the region. Labor shortages persisted for skilled and specialized workers including engineers, oil field workers, accountants, and sales people. Some companies reported difficulty retaining workers in minimum wage jobs. Still, most businesses did not anticipate raising wages in the coming months. District contacts reported some firms were offering enhanced benefits or incentive-based bonuses rather than higher salaries.

Prices
Price pressures remained moderate since the last survey. Most retail contacts reported a decline in selling prices and expected retail price pressures to remain stable in the months ahead. Builders reported construction material prices held steady, and fewer builders expected material prices to rise in the months ahead. The share of manufacturers reporting increased materials costs rose slightly as rising farm commodity prices boosted costs for food manufacturers. The share of factories raising finished goods prices also edged up. However, manufacturers expected input and finished goods prices to remain flat.

Return to top

Eleventh District--Dallas

The Eleventh District economy continued to decelerate from early January to late February. Manufacturing and service sector activity grew more slowly. Retail sales picked up some. Nonresidential construction remained strong, but the housing market continued to weaken. Commercial lending remains solid, while consumer lending was still soft. Energy activity is robust, but contacts say the hectic pace has calmed. Agricultural conditions were mixed.

Prices
Energy prices fell in January but rebounded in February. Light sweet crude fell by more than $10 per barrel in the first half of January and bounced back to about $60 in February. Since the end of 2006, retail gasoline and diesel prices are down by 4 and 9 cents per gallon, respectively. Natural gas spot prices at Henry Hub weakened to $5.50 per million Btu early

in the year but rebounded to between $8 and $9 for most of February. Cold weather reduced natural gas inventories, but they remain high at 10.8 percent above the five-year average.

Prices fell for a number of products, including lumber and petrochemicals. Prices fell sharply--as much as 20 percent--for many plastics. Polypropylene and polyethylene prices stabilized and rose by a few cents in February, but PVC (40 percent of which goes to pipe used in construction) continued to fall. Prices for bottle resins also remained weak because of seasonal weakness and new capacity coming on-line. Semiconductor prices declined, and home prices drifted lower in most markets. Auto dealers reported larger incentives.

Some prices were higher, such as for shipping. Legal fees are up. Office rents continue to rise according to contacts who also expressed concerns about higher utilities and taxes. Scrap steel prices have risen to an all-time high, boosted by strong global demand, and reduced import competition. Prices for other metals remain soft, however, and contacts expect price declines for copper and aluminum. Air carriers said expanding capacity is limiting fare increases.

Labor Market

Labor market conditions remain tight, with continued shortages for many types of workers, but there has been some softening. Hiring continues to increase at some firms, such as for nonresidential construction and food manufacturers, but the pace of hiring is slowing at other firms, and there have been some layoffs, such as for homebuilding.

There continue to be reports of shortages of skilled and semi-skilled workers, such as accountants, engineers and workers to support the energy, IT and nonresidential construction industries. Legal firms say hiring is increasingly competitive. The airline industry reports more difficulty finding and retaining qualified employees. Soft activity has improved the hiring picture for some professions. For example, auto dealers say the market for certified mechanics remains tight but not as bad as it has been over the past few years.

Wages continue to rise for workers in short supply. Several firms noted that they are preparing for increases in the minimum wage, with less concern about the first year increase than absorbing additional increases. Several industries continue to report high health care costs.

Manufacturing

Manufacturing activity continued to decelerate between early January and late February. Food producers continue to report stronger than expected demand, but most other industries reported softness. Paper producers report that sales of packaging materials have been flat.

Overall sales in the high-tech industry remain good, but there are reports of slowing sales for some products. Contacts say the demand picture has been clouded by stiff competition and changes in the mix of products bought by consumers. While sales to consumers are still strong, demand has been flat for automotive and computer products and weak for high-end cell phones. Sales have picked up for products sold to defense and industrial customers. Some contacts note higher than desired inventories, but contacts say industry inventories are still in good shape.

Demand remains soft for construction-related materials, such as lumber, stone, brick, glass, plastics and metals. Inventories are up for some products, leading some firms to cut production, reduce hiring or lay off workers. Contacts attribute weakness to unfavorable weather conditions and the continued slowing in residential construction. Demand remains strong to supply materials to nonresidential projects, such as office, retail, schools and public works. Some metal producers report weaker sales for nonresidential projects because budget overruns have led builders to "value-engineer" and substitute cheaper products.

Slowing housing construction has reduced demand for vinyl plastics and petrochemicals. Demand for auto-related products, such as tires, are holding at good levels. Some of the domestic slowdown has been offset by robust exports, which picked up late last year and remain very strong.

Gulf Coast refiners went into an extensive and extended maintenance season, with over a million barrels of capacity out of service on the Texas and Louisiana Gulf Coast in mid-January. Imports of gasoline have been relatively weak, and exports of diesel to Europe relatively high.

Services

Demand for business services continued to rise, although the rate of increase continued to decelerate. Temporary staffing agencies said demand remained soft for clerical and manufacturing workers, but orders are solid to supply accounting, IT and energy service firms. Accounting firms report increased activity and continued hiring. Demand for legal services is higher than a year ago, with increased activity in business transactions offsetting slow demand for litigation.

Container trade activity remained strong, but cargo volumes were down for shipping firms moving domestic small parcels. Trucking firms reported less activity which they attribute to a temporary decline in imports from China. Demand for air travel increased some over the past six weeks.

Retail Sales

Sales strengthened from early January to late-February. Retailers say sales are sensitive to changes in gasoline prices, particularly for lower income customers. Auto sales continued at roughly the same level as a year ago. Dealers say factory inventories remain high at many plants.

Construction and Real Estate

Housing markets continue to soften, and single-family construction is slowing. Demand remains weakest in the Dallas/Fort Worth area, where slowing sales and rising cancellations have boosted new home inventories to high levels. Respondents say negative housing news in other parts of the country has made buyers increasingly nervous, and some weakness is the result of investors pulling out.

Home demand is still relatively strong in other major metropolitan areas, although activity is slower than a year ago. Despite relatively strong new home sales, contacts say large national builders are reducing speculative inventory and construction (especially of lower priced homes), partly to free capital to manage their balance sheets.

Demand for nonresidential space remains strong. There continues to be a lot of construction of new office space in Dallas/Fort Worth, and activity is expected to increase in other areas, such as Houston and Austin. Contacts note a lot of apartments and condominiums are still under construction.

Financial Services
Financial service firms report solid commercial lending activity, with competitive pricing, but consumer lending activity remains soft. Credit quality is still strong, they say, but they are closely monitoring loan delinquency and default rates in real estate portfolios. Lenders continue to report difficulty attracting deposits, and say there is increased pressure to raise interest rates on these accounts.

Energy
Energy activity remains brisk, but the frenzy of activity has downshifted. Demand for oil services has slowed domestically but remains strong in most international markets. Service firms say order books are full, but new activity is no longer increasing at a rapid pace.

Domestic drilling remains at high levels but growth has been dampened by lower natural gas prices and higher costs, including rising wages and other costs. The U.S. rig count has been flat since August, and drilling for natural gas in Canada has recently dipped. Growth in the Texas rig count leveled off in late 2006, but drilling in the state increased in January and early February, boosted by the recent rebound in prices. Overall international drilling (primarily for oil) remains strong, and contacts say activity would be stronger with more available rigs, especially for offshore exploration. Additional offshore rigs are under construction and expected to be delivered this year and next, keeping activity strong for several years.

Agriculture
Unexpectedly cold weather delayed land preparation for spring crops but provided much needed chill hours for fruit, boosting the outlook for yields. Some areas received precipitation, improving soil moisture levels. Wheat and oat fields are in good conditions in these areas. Cold weather hurt pasture growth and livestock conditions. Cattle prices remain strong, but supplemental feeding has increased and grain prices are high. Contacts say that increased demand for ethanol has led to higher prices for corn and other crops.

Return to top

Twelfth District--San Francisco

Economic activity in the Twelfth District continued to grow at a moderate pace on net during the survey period of January through late February. Upward price pressures remained modest and eased further in some sectors, despite slightly faster growth in labor costs on net. Retailers reported modest sales gains, with robust gains reported for service providers. Manufacturers and agricultural producers also reported demand growth, although significant supply constraints were noted for some crops. District housing markets cooled further, while conditions in commercial real estate markets continued to firm. Banks reported additional growth in loan demand, albeit at a reduced pace in some areas.

Wages and Prices
Upward price pressures were mixed across sectors but remained modest on net. Past and ongoing declines in the costs of energy and selected raw materials have reduced inflationary pressures in a variety of industries, such as agriculture, transportation, and

electronics. Contacts in these and other industries noted that upward price pressures have been restrained in part due to availability of inexpensive imports and global sourcing of intermediate goods and services. By contrast, the prices of selected inputs used in food processing have increased significantly, causing producers to raise prices in that industry.

Growth in labor compensation inched up relative to the previous survey period but remained moderate overall. Recent increases have been driven primarily by compensation components other than base wages and salaries, such as bonus payments and rising costs for health-care benefits. Compensation growth continued to be more rapid for some worker groups with specialized skills and in areas with very tight labor markets, notably Idaho and Hawaii.

Retail Trade and Services

District retailers reported modest increases in sales during the most recent survey period. Sales of most retail items increased in dollar and unit terms compared with the same time last year. However, sales of furniture and items used for home improvement have fallen along with activity in residential real estate markets. Sales of new automobiles reportedly were flat, with continued strong sales of imported vehicles largely offsetting tepid sales of domestic models. Inventories of domestic light trucks and SUVs remained at high levels.

Most service providers saw robust demand, with especially strong conditions noted for food and beverage, health-care, technology, and legal services. Travel and tourism activity was at high levels and grew further in some regions, notably in the San Francisco Bay Area. However, tourist visits have leveled out in Hawaii, as significant declines in visits by foreign tourists have offset continued moderate growth in domestic tourism; contacts there reported that hotel occupancy rates have fallen relative to a year earlier.

Manufacturing

District manufacturers reported further growth in demand and sales for the survey period of January through late February. Semiconductor sales expanded at a solid pace, and capacity utilization in the sector generally remained in the range of 90 percent; industry forecasts point to a slight pickup in growth in 2007. Producers of commercial aircraft and defense products saw further growth in orders and continued to operate near full capacity to meet existing backlogs. Makers of machine tools reported that the pace of orders was largely consistent with the previous period, while food manufacturers reported strong growth in orders. In contrast, demand for wood products and other building materials used primarily in residential construction fell further.

Agriculture and Resource-related Industries

Demand for agricultural and resource-related products grew further. Sales of most crops and dairy products expanded and prices in general remained firm. However, California spinach producers have been struggling with weak demand, which has been held down by lingering concerns about food safety arising from crop contamination in September. In addition, a recent severe cold snap in that state severely damaged citrus, avocado, and some vegetable crops, reducing output and raising their prices significantly. On the resources side, producers of oil and natural gas reported generally strong demand and high levels of capacity utilization, although one provider of natural gas reported that demand growth has been held down of late by slower sales of new homes.

Real Estate and Construction

Residential real estate markets cooled further in most parts of the District, although contacts noted scattered signs of stabilization in market conditions. In most areas, sales of new and existing homes fell further, and the inventory of available homes rose accordingly. In response, price appreciation for new and existing homes has slowed, with noticeable price declines in some areas of late, and residential construction activity has dropped substantially. Contacts in some parts of the District, notably in California, reported signs of market stabilization, in the form of a reduced rate of deterioration in market conditions; however, other reports indicated that the deterioration has not abated in hard-hit areas such as Arizona. On the nonresidential side, in a continuation of existing trends, vacancy rates generally fell and rental rates rose. Construction activity for commercial and public projects grew further, largely offsetting the decline in residential construction activity, though the pace of growth for nonresidential construction reportedly has fallen compared with last year.

Financial Institutions

Contacts in the banking sector reported further growth in loan demand but at a slower pace than in recent survey periods. Growing demand for commercial and industrial loans largely offset further weakening in demand for residential loans, though some contacts noted a resurgence of refinancing activity as consumers switched from variable-rate to fixed-rate mortgages. A few contacts reported signs of deteriorating credit quality, such as an increase in nonperforming consumer loans, but credit quality in general remained at favorable levels.

Return to top