

National Economic Outlook Summary

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Economic Conditions December 31, 2008

In fourth quarter 2008, the National Bureau of Economic Research (NBER) officially announced the U.S. was in a recession. Citing continued deterioration in the labor market throughout 2008 — an estimated three million jobs lost — the NBER stated the recession began in December 2007; making it one of the longest downturns in the post-World War II era. Exact reasons or causes for the recession were not given, although the housing market crisis, which started in 2006, is widely accepted as the primary cause of the broader economic downturn.¹

In the latter part of 2008, credit markets in the U.S. and worldwide froze, financial markets began a series of freefalls, and governments and central banks scrambled to respond to the growing instability. A \$700 billion financial rescue plan, the Emergency Economic Stabilization Act of 2008 (EESA), passed both houses of Congress, and was signed into law by President Bush on October 3, 2008. The primary focus of the EESA was to be the purchase of “troubled assets” from financial institutions, through the Troubled Assets Relief Program (TARP).² Two weeks after EESA became law, the program’s focus was revised to allow the Treasury Department to purchase equity stakes in banks, rather than purchasing troubled assets outright. Through the end of December 2008, approximately \$300 billion had been authorized and spent by the Treasury Department under TARP.³

In a December 2008 press release, the Board of Governors of the Federal Reserve (Fed) made the following statements with regard to the overall condition of the U.S. Economy:

Labor market conditions have deteriorated, and the available data indicate that consumer spending, business investment, and industrial production have declined. Financial markets remain quite strained and credit conditions tight. Overall, the outlook for economic activity has weakened further. Meanwhile, inflationary pressures have diminished appreciably. In light of the declines in the prices of energy and other commodities and the weaker prospects for economic activity, the Committee expects inflation to moderate further in coming quarters. The Federal Reserve will employ all available tools to promote the resumption of sustainable economic growth and to preserve price stability. In particular, the Committee anticipates that weak economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time.⁴

¹ CNNMoney, “It’s official: Recession since Dec ’07,” December 1, 2008, <<http://money.cnn.com>>; U.S. Department of Labor, Bureau of Labor Statistics, *News*, “The Employment Situation – December 2008,” January 9, 2009, <<http://stats.bls.gov/cps/home.htm>>.

² U.S. Senate Committee on Banking, Housing, and Urban Affairs, “Section by Section Analysis of the Legislation,” October 1, 2008, <banking.senate.gov/public_files/latestversionBill_sectionbysectionF.pdf>.

³ “Economy Rescue: Adding Up the Dollars,” CNNMoney.com, February 10, 2008, <<http://money.cnn.com>>.

⁴ Federal Open Market Committee of the Federal Reserve Board, *FOMC Statement*, December 16, 2008.

Gross Domestic Product

According to advance estimates released by the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce, real gross domestic product (GDP)—the output of goods and services produced by labor and property located in the United States, adjusted for inflation—declined at an annual rate of 3.8% in fourth quarter 2008, compared to a decrease of 0.2% a year earlier. The decline in fourth quarter GDP reflected negative contributions from exports, personal consumption expenditures, equipment and software, and residential fixed investment that were partly offset by positive contributions from private inventory investment and federal government spending. Imports, which are a subtraction in the calculation of GDP, decreased. For the year GDP growth was 1.3%; comparatively GDP increased 2.0% in 2007.⁵

The following table illustrates the five-year annual trend in the components of real GDP:

COMPONENTS OF REAL GROSS DOMESTIC PRODUCT (“GDP”) 2004 – 2008

	2004	2005	2006	2007	2008
Real GDP	3.6%	3.1%	2.8%	2.0%	1.3%
Personal Consumption Expenditures	2.6%	2.2%	2.1%	2.0%	0.2%
Gross Private Domestic Investment	1.5%	0.9%	0.4%	-0.9%	-0.9%
Trade (Exports less Imports)	-0.7%	-0.2%	0.0%	0.6%	1.4%
Government Spending	0.3%	0.1%	0.3%	0.4%	0.6%

Note: Figures may not total due to rounding.

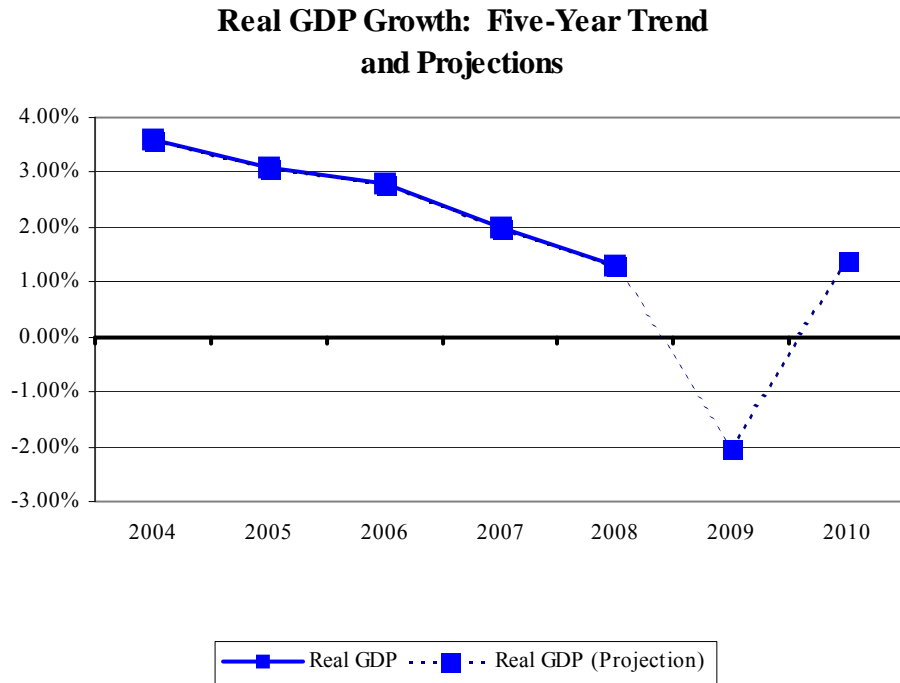
Source: Bureau of Economic Analysis, U.S. Department of Commerce

Positive economic growth was expected to resume in second half 2009. Small gains were anticipated, with growth driven largely by government spending, including tax cuts. Continued weakness in the financial and housing sectors, as well as the ongoing downturn in the labor market, would offset much of the expected growth. As a result,

⁵ Federal Reserve Bank of Philadelphia, *The Livingston Survey*, “December 2008: Forecasters Predict Economic Contraction Through Middle of 2009,” December 9, 2008, <<http://www.philadelphiafed.org/research-and-data/real-time-center/livingston-survey/>>; IBISWorld Recession Briefing. “Economic Crisis: When will it End? *IBISWorld*, February 5, 2009, <www.ibisworld.com>.

GDP was projected to contract sharply in 2009, by as much as 2.0%. Slow growth was projected for 2010; estimates for growth in GDP ranged from 0.6% to 1.4%.⁶

The following graph illustrates the five-year annual trend in real GDP growth:



Prices and Inflation

The U.S. Department of Labor reported that consumer prices, as measured by the Consumer Price Index (CPI), increased by 0.1% in 2008. This was the smallest increase since a 0.7% decline in 1954, and compares with a 4.1% increase in 2007.⁷ Consumer price inflation was projected to increase slightly in 2009, by 0.5%, and accelerate in 2010, to 2.1%.⁸

⁶ Federal Reserve Bank of Philadelphia, *The Livingston Survey*, December 9, 2008; IBISWorld Recession Briefing, *IBISWorld*, February 5, 2009; The Economist Intelligence Unit, Economic Data, “Country Data-United States,” *Economist*, January 28, 2009, <www.economist.com>.

⁷ U.S. Department of Labor, Bureau of Labor Statistics, *News*, “Consumer Price Indexes – December 2008,” January 16, 2009, <<http://stats.bls.gov/cpi/home.htm>>.

⁸ Federal Reserve Bank of Philadelphia, *The Livingston Survey*, December 9, 2008.

The index for energy, which rose 17.4% in 2007, fell 21.3% in 2008. Energy commodities (that is, petroleum-based energy prices) declined 40.5% and energy services rose 7.7% in 2008.⁹

The food index rose 5.9% in 2008, compared to a 4.9% increase in 2007. Grocery store food prices rose 6.6% in 2008, compared to 5.6% in 2007. The 2008 increases were the largest since 1980. Among the grocery store food groups, the 2008 increases ranged from a low of 2.7% for dairy and related products to a high of 11.7% for cereals and bakery products.¹⁰

The core-CPI, which omits the volatile food and energy sectors, advanced by 1.8% in 2008, compared to 2.4% a year earlier. The smaller increase reflects slower advances in prices for shelter and medical care as well as a decline in the price of new and used motor vehicles. Shelter costs rose 1.9% in 2008 after increasing 3.1% in 2007, while medical care prices rose 2.6% in 2008 after increasing 5.2% in 2007. Prices for new and used motor vehicles declined 3.5% during 2008 after being virtually unchanged during 2007.¹¹

The following table illustrates the five-year annual trend in the categories of CPI:

**CONSUMER PRICE INDEX (CPI)
2004 – 2008**

	2004	2005	2006	2007	2008
CPI	3.3%	3.4%	2.5%	4.1%	0.1%
Energy Index	16.6%	17.1%	2.9%	17.4%	-21.3%
Food Index	2.7%	2.3%	2.1%	4.9%	5.9%
Core-CPI (excl. food and energy)	2.2%	2.2%	2.6%	2.4%	1.8%

Source: Bureau of Labor Statistics, U.S. Department of Labor

In 2008, the Producer Price Index (PPI) for Finished Goods decreased by 0.9%, according to the Department of Labor, compared with an increase of 6.2% a year earlier. In fourth quarter 2008, producer prices for finished goods declined at a 24.3% SAAR, primarily due to a 75.7% decline in prices for finished energy goods during the quarter.¹² PPI inflation was projected to decline slightly in 2009, by 0.8%, and rise in 2010, to 1.1%.¹³

Prices for finished energy goods decreased by 20.3% in 2008, this followed an increase of 17.8% a year earlier. The index for finished consumer foods increased by 3.7% in

⁹ U.S. Department of Labor, Bureau of Labor Statistics, *News*, “Consumer Price Indexes – December 2008,” January 16, 2009.

¹⁰ Ibid.

¹¹ Ibid.

¹² U.S. Department of Labor, Bureau of Labor Statistics, *News*, “Producer Price Indexes – December 2008,” January 15, 2009, <<http://stats.bls.gov/ppi>>.

¹³ Federal Reserve Bank of Philadelphia, *The Livingston Survey*, December 9, 2008.

2008, comparatively the index increased 7.6% in 2007. Prices for finished goods less foods and energy increased 4.3% in 2008, compared to 2.0% a year earlier.¹⁴

At the earlier stages of processing, the intermediate goods index fell by 1.7% in 2008, compared to a 7.1% increase a year earlier. Prices for crude goods decreased by 25.0% in 2008, compared to a 19.8% increase a year earlier. Sharply lower energy prices at both the intermediate and crude levels contributed to the year-over-year decrease.¹⁵

The following table illustrates the five-year annual trend in the categories of PPI:

**PRODUCER PRICE INDEX (PPI)
2004 – 2008**

	2004	2005	2006	2007	2008
<i>PPI Finished Goods</i>	4.2%	5.4%	1.1%	6.2%	-0.9%
PPI Finished Energy Goods	13.4%	23.9%	-2.0%	17.8%	-20.3%
PPI Finished Consumer Foods	3.1%	1.7%	1.7%	7.6%	3.7%
PPI Intermediate Goods	9.2%	8.6%	2.8%	7.1%	-1.7%
PPI Crude Materials	17.4%	21.1%	-4.7%	19.8%	-25.0%

Source: Bureau of Labor Statistics, U.S. Department of Labor

Energy

Petroleum-Based Energy

Driven down by record level retail prices in first half 2008, and worsening economic conditions in the second half of the year, total U.S. petroleum products consumption declined by 5.8% in 2008. Motor gasoline consumption declined 3.4% for the year and major reductions in airline capacity, particularly in fourth quarter 2008, resulted in a 6.2% decline in jet fuel consumption. Additionally, despite colder weather, distillate fuel consumption dropped 5.4% in 2008. Total petroleum product consumption was projected to decline further in 2009, by 2.4%, due in large part to the expectation of severe economic weakness throughout much of the year. Improving economic factors in 2010 were expected to increase consumption by 1.1%.¹⁶

¹⁴ U.S. Department of Labor, Bureau of Labor Statistics, *News*, “Producer Price Indexes – December 2008,” January 15, 2009.

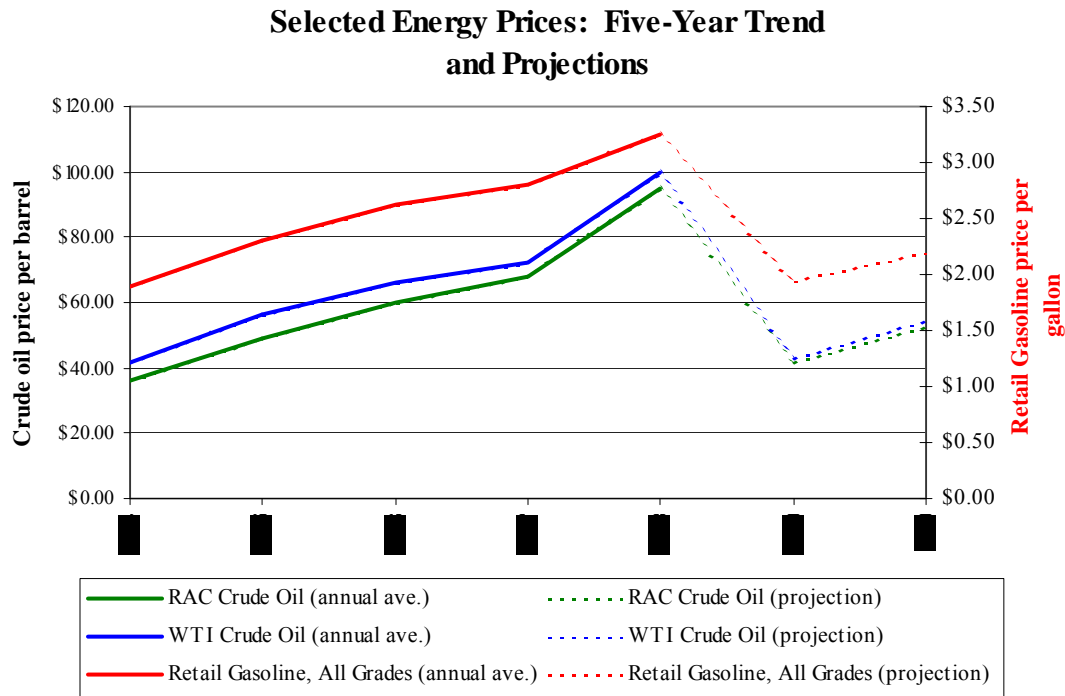
¹⁵ *Ibid.*

¹⁶ U.S. Department of Energy, Energy Information Administration, *Short-Term Energy Outlook*, February 10, 2009, <www.eia.doe.gov/steo>.

In 2008, the refiner acquisition cost (“RAC” – that is, the cost including transportation and other fees paid by the refiner) for crude oil averaged \$94.79 per barrel, compared to \$68.09 a year earlier. The annual average RAC price was expected to decrease dramatically in 2009, to \$41.82, and then increase somewhat in 2010, to \$52.59. West Texas Intermediate (“WTI”) crude oil prices averaged \$99.56 per barrel in 2008, compared to \$72.32 per barrel in 2007. Daily spot prices ranged from \$150 per barrel in July to about \$30 per barrel at year end. WTI prices were projected to average \$43.14 and \$54.50 per barrel, respectively, in 2009 and 2010.¹⁷

In 2008, retail gasoline prices averaged \$3.25 per gallon. In December 2008, the U.S. price for regular gasoline averaged \$1.69 per gallon, the lowest monthly average since February 2004 and a decline of about \$2.40 a gallon from the monthly peak in July 2008. Average retail gasoline prices were projected to be \$1.95 and \$2.19 per gallon, respectively, in 2009 and 2010. Diesel fuel prices, which averaged \$3.79 per gallon in 2008, were projected to average \$2.28 and \$2.55 per gallon in 2009 and 2010 as diesel fuel consumption is expected to continue to decline. Heating oil prices, which averaged \$3.36 per gallon in 2008, were projected to average \$2.30 and \$2.45 per gallon, respectively, in 2009 and 2010.¹⁸

The following graph illustrates the five-year trend in petroleum-based energy prices:



¹⁷ Ibid.

¹⁸ Ibid.

Natural Gas

Total natural gas consumption was estimated to have increased by 0.7% in 2008, primarily driven by a 5.8% increase in heating degree-days year-over-year. The Henry Hub spot price averaged \$9.13 per Mcf (thousand cubic feet) in 2008 but ended the year at an average \$5 per Mcf. Weak demand combined with strong domestic production contributed to the price decline. Total U.S. marketed natural gas production was estimated to have increased by 5.9% in 2008. Producers began to react to lower prices and the outlook for lower consumption by decreasing drilling activity in fourth quarter 2008. The number of rigs drilling for natural gas in the Lower-48 onshore region declined from about 1,540 in August 2008 to under 1,200 at the end of the year.¹⁹

U. S. natural gas consumption was projected to decline by 1.3% in 2009 and then to increase by 0.6% in 2010. A slight increase in residential and commercial sector consumption was expected to be more than offset by consumption declines in the industrial and electric power sectors in 2009. Consumption growth in 2010 will be driven primarily by growth in the electric power sector, although slight growth in the residential and commercial sectors is anticipated as well. Total U.S. marketed natural gas production was expected to increase slightly in 2009, and then decline by 1.1% in 2010. On an annual basis, the Henry Hub spot price was expected to average \$5.01 per Mcf in 2009 and \$5.93 per Mcf in 2010. Despite the cutback in drilling activity at the end of 2008, it was possible that production cutbacks, triggered in part by lower-than-expected natural gas prices and consumption, might be necessary in order to balance the market.²⁰

Consumer Confidence and Spending

Consumer confidence, as measured by the Conference Board, was at 38.0 in December 2008,²¹ reaching an all-time low after falling 50.6 points during the year. Lynn Franco, Director of The Conference Board's Consumer Research Center, stated that:

The further erosion of the Consumer Confidence Index reflects the rapid and steep deterioration of economic conditions that occurred in the fourth quarter of 2008. The Present Situation Index is now close to levels last seen in the months following the 1990-91 recession, but is not as low as levels reached during the 1981-82 recession. Declines in the Expectations Index appear to be moderating, but this index continues to hover at historical lows. Both sub-indexes bear careful watching over the next several months to see if they are starting to show signs of approaching a bottom. In the meantime, however, the overall economic outlook remains quite dismal for the first half of 2009, and only a modest recovery is expected in the second half.²²

¹⁹ U.S. Department of Energy, Energy Information Administration, *Short-Term Energy Outlook*, January 9, 2009; U.S. Department of Energy, Energy Information Administration, *Short-Term Energy Outlook*, February 10, 2009, <www.eia.doe.gov/steo>

²⁰ Ibid.

²¹ The Conference Board, *Economic News*, "The Conference Board Consumer Confidence Index Falls to a New All-Time Low in December," December 30, 2008, <<http://www.conference-board.org/utilities/press.cfm>>.

²² Ibid.

In fourth quarter 2008, consumer spending reportedly dropped by a record 8.9%, making it the worst quarter for spending since the U.S. Commerce Department began tracking the statistic in 1947. December 2008 marked the sixth straight month that consumers reduced their spending, a decline that increased dramatically in the final months of the year.²³ According to the U.S. Department of Commerce, real consumer spending increased by 0.3% in 2008, compared with an increase of 2.8% a year earlier. Consumer spending on durable goods, such as cars and appliances, decreased by 4.4% in 2008, compared to an increase of 4.8% a year earlier. Spending on nondurable goods decreased by 0.4% in 2008, spending on these items increased 2.5% in 2007. Spending on services increased 1.5% in 2008. Comparatively, spending on services increased 2.6% in 2007.²⁴ Continued housing-market concerns, rising unemployment, and global economic insecurity were all likely to continue to have a negative impact on consumer spending in 2009.

The following table illustrates the five-year annual trend in the categories of consumer spending:

**CONSUMER SPENDING
2004 – 2008**

	2004	2005	2006	2007	2008
<i>Consumer Spending</i>	3.6%	3.0%	3.0%	2.8%	0.3%
Durable Goods	6.3%	4.6%	4.5%	4.8%	-4.4%
Non-Durable Goods	3.5%	3.4%	3.7%	2.5%	-0.4%
Services	3.2%	2.6%	2.5%	2.6%	1.5%

Source: Bureau of Economic Analysis, U.S. Department of Commerce

Interest Rates

The Fed eased its monetary policy in first half 2008, decreasing the federal funds rate (the interest rate banks charge each other for overnight loans) by 2.25% and the federal discount rate (the interest rate the Federal Reserve charges banks on loans) by 2.5%. The decrease brought the federal funds rate to 2.0% and the primary discount rate to 2.25% at the end of June 2008, where they remained through the end of September 2008. In fourth quarter 2008, the Fed further decreased both the federal funds rate and the primary discount rate by 1.75%, to 0.25% and 0.5%, respectively.²⁵

Selected Interest Rates

²³ CNNMoney.com, “Spending: Lowest rise in 27 years,” February 2, 2009, < <http://money.cnn.com> >.

²⁴ U.S. Department of Commerce, Bureau of Economic Analysis, *News*, “Personal Income and Outlays – December 2008,” February 2, 2009, <<http://www.bea.doc.gov/bea/rels.htm>>.

²⁵ Federal Open Market Committee of the Federal Reserve Board, *FOMC Statement*, December 16, 2008.

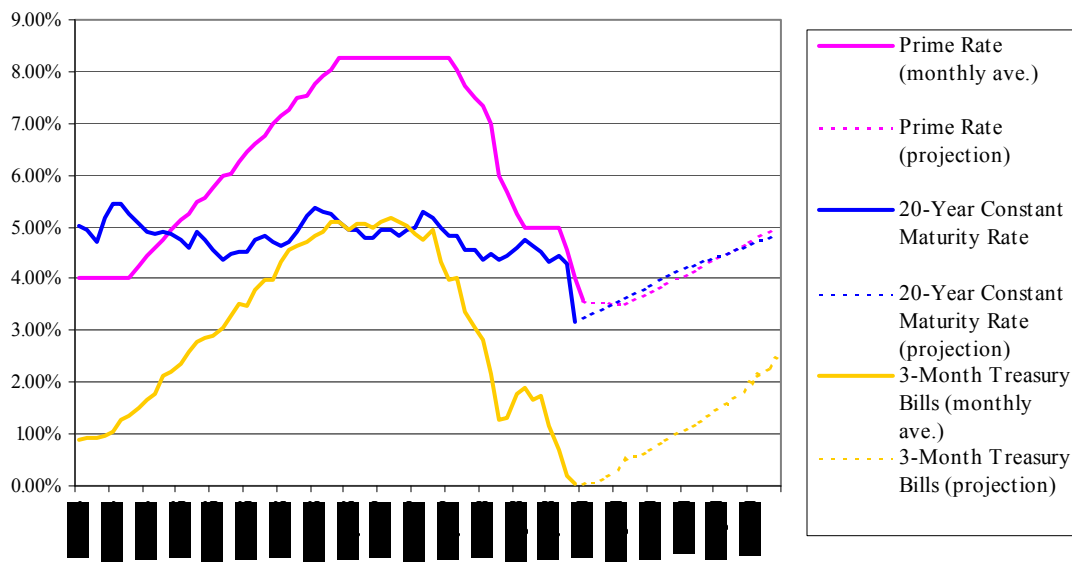
The prime rate ended at a monthly average of 3.61% in December 2008, falling 3.72% from January. It had been at 8.25% from July 2006 until September 2007, and had declined steadily since that time until May 2008.²⁶ The prime rate was expected to remain steady in first half 2009, then increase in second half 2009 and 2010.²⁷

The 20-Year Treasury Constant Maturity Rate ended in December 2008 at a monthly average of 3.18%, lower than the year-earlier rate.²⁸ Long-term interest rates were expected to increase slowly through 2009 and 2010.²⁹

Short-term interest rates, represented by 3-Month Treasury Bills, ended at a monthly average of 0.03% in December 2008. That was over 3.0% lower than the rate a year earlier.³⁰ Short-term interest rates were expected to increase in 2009 and 2010.³¹

The following graph illustrates the five-year trend in interest rates:

Selected Interest Rates: Five-Year Trend and Projections



²⁶ The Federal Reserve Board, *Federal Reserve Statistical Release H.15 – Selected Interest Rates*, “Bank Prime Loan,” <www.federalreserve.gov/releases/H15/data/m/prime.txt>.

²⁷ Federal Reserve Bank of Philadelphia, *The Livingston Survey*, December 9, 2008.

²⁸ The Federal Reserve Board, *Federal Reserve Statistical Release H.15 – Selected Interest Rates*, “Treasury Constant Maturities (20-Year),” <www.federalreserve.gov/Releases/h15/data/m/tcm20y.txt>.

²⁹ Federal Reserve Bank of Philadelphia, *The Livingston Survey*, December 9, 2008.

³⁰ The Federal Reserve Board, *Federal Reserve Statistical Release H.15 – Selected Interest Rates*, “Treasury Constant Maturities (3-Month),” <www.federalreserve.gov/Releases/h15/data/m/tcm20y.txt>.

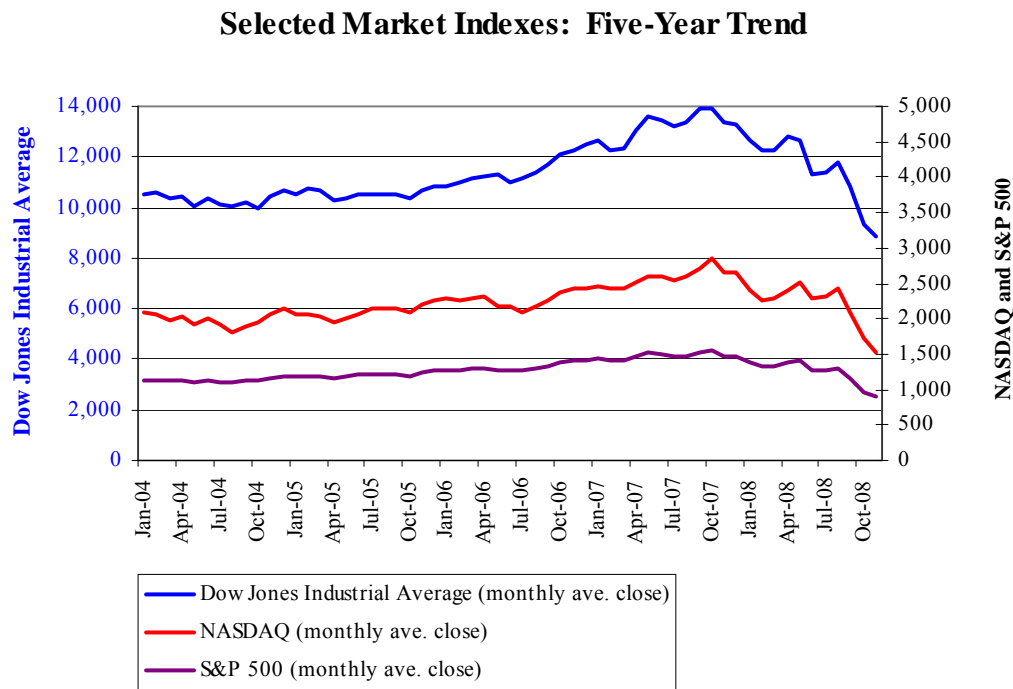
³¹ Federal Reserve Bank of Philadelphia, *The Livingston Survey*, December 9, 2008.

Financial Markets

Financial markets declined in 2008, with investors reacting to increasingly negative economic news and uncertainty about government interventions, particularly in the final quarter of the year. Despite enactment of the EESA— a \$700 billion financial rescue plan expected to create stability in the financial sector and ease investor concern — stocks dropped sharply in fourth quarter 2008.

The Dow closed December 2008 at a monthly-average 8,776.39, down 19.1% from September 2008, and 33.8% lower than a year earlier. The December average was the lowest in over five years.³² The NASDAQ Composite Index (“NASDAQ”) closed at a monthly-average 1,577.03 in December 2008, down 24.6% from September, and 40.5% lower than the year-earlier level.³³ The Standard & Poor’s 500 (“S&P 500”) was down 222.5% from September and was 38.5% below the December 2007 level, closing in December 2008 at a monthly-average 903.25.³⁴

The following graph illustrates the five-year trend in financial market indexes:



³² “Historical Prices – Dow Jones Industrial Average,” Yahoo!Finance, December 31, 2008, <finance.yahoo.com/q?d=t&s=^DJI>.

³³ “Historical Prices – NASDAQ Composite,” Yahoo!Finance, December 31, 2008, <finance.yahoo.com/q?d=t&s=^IXIC>.

³⁴ “Historical Prices – S&P 500 Index,” Yahoo!Finance, December 31, 2008, <finance.yahoo.com/q?d=t&s=^GSPC>.

Construction, Housing, and Real Estate

The housing market continued to decline in December 2008, according to the Manufacturing and Construction Division of the U.S. Bureau of the Census. Housing starts were at a 550,000 SAAR in December 2008, compared with 1,000,000 a year earlier.³⁵ This was a decline of 45.0% year over year. Housing starts had been declining since 2005, though single-family starts had been falling much more rapidly than multi-family starts.³⁶ It was anticipated that annual housing starts would decline sharply in 2009, before beginning to recover in 2010, slowly.³⁷

In December 2008, sales of new single-family houses were estimated to be 331,000 SAAR. This was 44.8% lower than a year earlier. The median sales price of a new home was \$206,500 in December 2008, compared to \$227,700 a year earlier. The average sale price of a new home was \$246,900, compared to \$284,400 a year earlier.³⁸ Home sales were projected to increase slowly in 2009 and 2010.³⁹

Existing homes sales decreased in December 2008, to a SAAR of 4.74 million unit sales according to the National Association of Realtors (“NAR”).⁴⁰ That was approximately 3.5% lower than a year earlier.

The average 30-year mortgage rate was 5.29% in December 2008, lower than the 6.10% average rate a year earlier.⁴¹ Rates were expected to remain the same or increase very slightly in 2009 and 2010.⁴²

Most Federal Reserve Districts that reported on lending activity indicated that it continued to decline or remained weak, and many Districts reported that credit conditions remained tight or tightened further.⁴³

³⁵ U.S. Census Bureau, Manufacturing, Mining, and Construction Statistics, *News*, “New Residential Construction in December 2008,” January 22, 2009, <<http://www.census.gov/const/www/newresconstindex.html>>.

³⁶ Ibid.

³⁷ Freddie Mac, Office of the Chief Economist, *Economic and Housing Market Outlook*, December 2008, <http://www.freddiemac.com/news/finance/ehforecast_archives.htm>.

³⁸ U.S. Census Bureau, Manufacturing, Mining, and Construction Statistics, *News*, “New Residential Sales in December 2008,” January 29, 2009, <<http://www.census.gov/const/www/newressalesindex.html>>.

³⁹ Freddie Mac, Office of the Chief Economist, *Economic and Housing Market Outlook*, December 2008.

⁴⁰ National Association of Realtors, “Existing Home Sales – December 2008,” <www.realtors.org>.

⁴¹ Freddie Mac, “30-Year Fixed-Rate Mortgages Since 1971,” <www.freddiemac.com/pmms/pmms30.htm>.

⁴² Freddie Mac, Office of the Chief Economist, *Economic and Housing Market Outlook*, December 2008.

⁴³ Federal Reserve Board, *The Beige Book*, January 14, 2009, <<http://www.federalreserve.gov/FOMC/BeigeBook/>>.

The following table illustrates the five-year annual trend in the housing sector:

**RESIDENTIAL CONSTRUCTION
2004 – 2008**

	<i>Housing Starts</i>	<i>Existing Home Sales</i>	<i>New Home Sales</i>	<i>Average Mortgage Rate</i>
2004	1.96 million	6.67 million	1,203,000	5.84%
2005	2.06 million	7.07 million	1,282,000	5.87%
2006	1.80 million	6.48 million	1,061,000	6.41%
2007	1.36 million	5.65 million	776,000	6.34%
2008	0.90 million	4.91 million	482,000	6.03%

Sources: Manufacturing and Construction Division, U.S. Bureau of the Census; National Association of Realtors; 30-Year Mortgage Rates obtained from Freddie Mac

The value of nonresidential construction in December 2008 continued to increase, with private spending up 15.3% from a year earlier. Public construction spending also increased in 2008, by 7.4% year-over-year, according to the Manufacturing and Construction Division of the U.S. Bureau of the Census.⁴⁴

Unemployment

The unemployment rate was 6.9% in fourth quarter 2008, according to the Bureau of Labor Statistics (“BLS”) of the U.S. Department of Labor. From December 2007 to December 2008, the unemployment rate increased by 2.3% on a seasonally-adjusted basis. The labor force remained essentially unchanged in fourth quarter 2008, but increased slightly for the year. Total nonfarm employment declined in fourth quarter 2008, and was lower year-over-year. Employment declined in most major industry sectors in fourth quarter 2008, according to preliminary information from the BLS. The education and health services and government sectors saw slight increases in employment for the quarter and for the year. Overall, an estimated 3.0 million jobs were lost in 2008.⁴⁵

The average workweek was lower in December 2008 from the year-earlier level. Both the manufacturing workweek and factory overtime hours decreased.⁴⁶ It was anticipated that the jobless rate would increase in 2009 and 2010, to 7.6% and 7.8%, respectively.⁴⁷

⁴⁴ U.S. Census Bureau, Manufacturing, Mining, and Construction Statistics, *News*, “December 2008 Construction at \$1,053.7 Billion Annual Rate,” February 2, 2009 <<http://www.census.gov/const/www/c30index.html>>.

⁴⁵ U.S. Department of Labor, Bureau of Labor Statistics, *News*, “The Employment Situation – December 2008,” January 9, 2009, <<http://stats.bls.gov/cps/home.htm>>.

⁴⁶ *Ibid.*

⁴⁷ Federal Reserve Bank of Philadelphia, *The Livingston Survey*, December 9, 2008.

Agriculture

Agricultural conditions were mixed in late 2008, due in part to widely varied weather conditions across the country. Rain eased drought conditions in most of the Atlanta District, while parts of the Dallas District were still severely dry. Weather conditions allowed for fieldwork in the Atlanta and Minneapolis Districts but delayed fieldwork in the Richmond and Chicago Districts. The winter wheat crop in the Kansas City District was in good condition, while winter wheat development in the Richmond District was hindered by cooler temperatures and rain in recent weeks. The livestock sector in the Kansas City District and the poultry sector in the Atlanta District reported slowed activity, while production of red meat and some types of poultry decreased in the St. Louis District. The Atlanta, Kansas City, Dallas, and San Francisco Districts reported that farm input costs (e.g., fuel and fertilizer) moderated or declined. The Dallas District reported that commodity prices dropped, but Chicago and Kansas City reported that corn and soybean prices rebounded slightly.⁴⁸

The preliminary All Farm Products Index of Prices Received by Farmers in December 2008 decreased 5.7% from the previous month, and was 6.3% lower than a year earlier. The Crop Index was down 7.1% in December, and was 3.3% lower than a year earlier. Decreases for fruits and nuts, commercial vegetables, food grains, feed grains and hay, and oil-bearing crops more than offset the increase for cotton and potatoes and dry beans. The Livestock Index decreased 3.2% in December 2008, and fell 10% year-over-year. Compared with a year earlier, prices were lower for milk, cattle, eggs, calves, and turkeys. Prices for broilers and hogs were higher than last year.⁴⁹

The December Index of Prices Paid for Commodities and Services, Interest, Taxes, and Farm Wage Rates (PPITW) was down 2.2% from the previous month but was 6.6% above December 2007. Prices for fuels, fertilizer, feed, and livestock and poultry declined from November 2008. Year-over-year, prices were lower for fuels and livestock and poultry, while prices increased for feed, fertilizer, chemicals, and machinery.⁵⁰

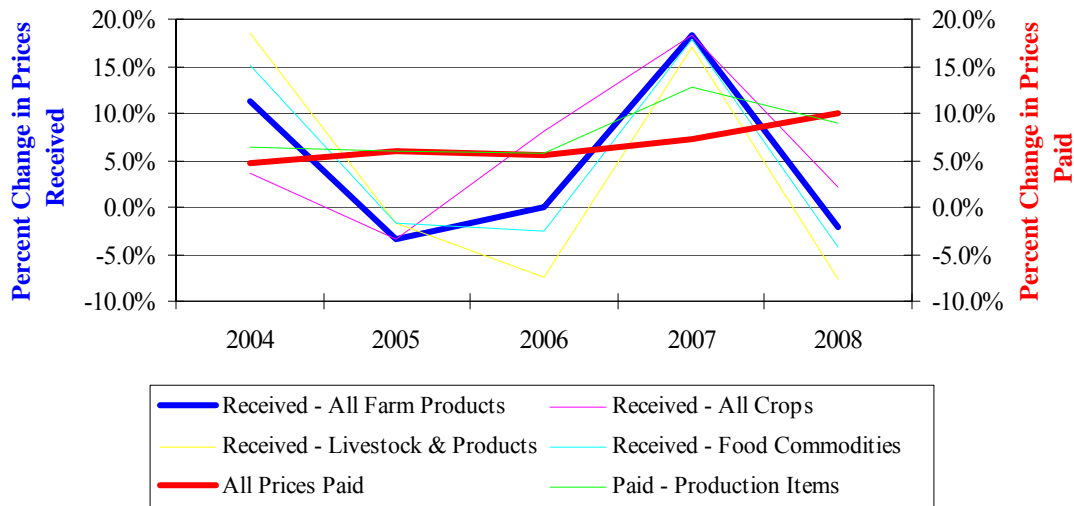
⁴⁸ Federal Reserve Board, *The Beige Book*, January 14, 2009.

⁴⁹ U.S. Department of Agriculture, Agricultural Statistics Board, National Agricultural Statistics Service, *Agricultural Prices*, "December Farm Prices Received Index Declined 8 Points," December 30, 2008, <<http://usda.mannlib.cornell.edu/usda/nass/AgriPric//2000s/2008/>>.

⁵⁰ Ibid.

The following table illustrates the five-year annual trend in prices paid and received by farmers:

Agricultural Prices Paid and Received: Five Year Trend



Feed Grains

Financial and macroeconomic developments continued to weaken corn demand in 2008/09, according to the U.S. Department of Agriculture (“USDA”). The forecast for corn used to produce ethyl alcohol for fuel was lower because of financial problems in the ethanol industry. Corn and sorghum exports also were forecast to be lower due to weak demand. Global 2008/09 coarse grain production was projected higher in December 2008, to a new record. World 2008/09 coarse grain ending stocks were projected to be higher than beginning stocks. In previous months, forecasts showed global coarse grain stocks declining year-to-year. U.S. corn and sorghum farm prices were projected to be lower in December, oats prices were expected to be unchanged, and barley prices were projected to increase because of high contracted malting barley prices.⁵¹

Feed and residual use of all feed grains in the September 2008 to August 2009 market year was expected to decrease. Corn was estimated to account for 91% of feed and residual use, down from 93% in the previous market year. Higher projected ending stocks, larger foreign grain supplies, and continued declines in cash and futures prices reduced prospects for 2008/09 prices received by producers.⁵²

Ethanol production was expected to be lower in the 2008-09 market year, due to declining gasoline consumption. Financial problems for ethanol producers reduced plant

⁵¹ U.S. Department of Agriculture, Economic Research Service, *Feed Outlook*, “Corn Use Lowered in 2008/09,” December 15, 2008, <<http://usda.mannlib.cornell.edu/usda/current/FDS/>>.

⁵² Ibid.

capacity utilization for existing plants and delayed plant openings for those still under construction in December 2008. Falling gasoline prices also resulted in high relative prices for ethanol, reducing incentives and slowing production.⁵³

Livestock

Beef production for the market year ending August 2009 was expected to be basically unchanged from a year earlier, while pork production was expected to decline. As a result, feed use by the pork sector was likely to weaken in the 2009 market year. Broiler and turkey production in 2009 was expected to slow, while eggs and milk production were expected to increase. Projected declines in 2009 production were expected to decrease feed use.⁵⁴

Summary and Outlook

A summary of major points concerning the nation's economic condition as of December 31, 2008, follows:

- In fourth quarter 2008, the National Bureau of Economic Research (NBER) officially announced the U.S. was in a recession. Citing continued deterioration in the labor market throughout 2008 — an estimated three million jobs lost — the NBER stated the recession began in December 2007; making it one of the longest downturns in the post-World War II era. Exact reasons or causes for the recession were not given, although the housing market crisis, which started in 2006, is widely accepted as the primary cause of the broader economic downturn.
- In the latter part of 2008, credit markets in the U.S. and worldwide froze, financial markets began a series of freefalls, and governments and central banks scrambled to respond to the growing instability. A \$700 billion financial rescue plan, the Emergency Economic Stabilization Act of 2008 (EESA), passed both houses of Congress, and was signed into law by President Bush on October 3, 2008. Through the end of December 2008, approximately \$300 billion had been authorized and spent by the Treasury Department under TARP.
- Fourth quarter 2008 real GDP decreased at an annual rate of 3.8%, compared to 0.2% a year earlier. The decline reflected negative contributions from exports, personal consumption expenditures, equipment and software, and residential fixed investment. The negative contributions were partly offset by positive contributions from private inventory investment and federal government spending. For the year GDP growth was 1.3%. GDP is projected to contract

⁵³ Ibid.

⁵⁴U.S. Department of Agriculture, Economic Research Service, *Livestock, Dairy, and Poultry Outlook*, "After Strong Exports for Most of 2008, a Weaker Fourth Quarter Is Expected," December 18, 2008, <<http://usda.mannlib.cornell.edu/usda/current/FDS/>>.

sharply in 2009, with growth declining by as much as 2.0%. Weak growth was projected for 2010; estimates for GDP growth ranged from 0.6% to 1.4%.

- Energy prices at both the consumer and producer levels fell sharply in 2008, while food prices increased for the year. Core consumer inflation decelerated in 2008. Inflation at the consumer level was expected to slow in 2009 before accelerating in 2010, while producer price inflation was expected to decline in 2009 before rising in 2010.
- Fourth quarter 2008 consumer spending dropped by a record 8.9%, making it the worst quarter for spending since 1947. December 2008 marked the sixth-straight month that consumers reduced spending, a decline that increased dramatically in the final months of the year. Spending on durable goods fell by 4.4% for the year, and spending on nondurable goods fell by 0.4%. Consumers remained very concerned about the short-term outlook and employment, as well as future expectations.
- Market-driven interest rates fell in fourth quarter 2008, with both short-term rates and long-term rates declining. Both the federal funds rate and the discount rate were lowered by 4.0% in 2008, to 0.25% and 0.5%, respectively.
- Financial markets declined on a year-over-year basis in 2008, with investors reacting to increasingly negative economic news. The financial bail-out package failed to ease investor concern and stocks fell sharply in the fourth quarter. For the year, the Dow was 33.8% lower, the NASDAQ was down 40.5%, and the S&P 500 was 38.5% lower.
- Housing continued to decline in 2008, with housing starts and new-home sales down 45% for the year. The value of nonresidential construction increased in 2008. Monthly average mortgage rates were somewhat lower than a year earlier. Rates were expected to remain the same or increase slightly in 2009 and 2010.
- In December 2008, the unemployment rate increased, to 6.9%, approximately 2.3% higher than a year earlier on a seasonally-adjusted annual basis. Employment declined in most major industry sectors in fourth quarter 2008, as well as for the year. Overall, an estimated 3.0 million jobs were lost in 2008.
- Agricultural conditions were mixed in fourth quarter 2008, due in part to widely-varied weather conditions across the country. Prices received by farmers were down in 2008, as decreases for fruits and nuts, commercial vegetables, food grains, feed grains and hay, and oil-bearing crops more than offset the increase for cotton and potatoes and dry beans. Year-over-year, prices paid by farmers for fuels and livestock and poultry were lower, while prices increased for feed, fertilizer, chemicals, and machinery.

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Economic Conditions December 31, 2008

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In the latter part of 2008, credit markets in the U.S. and worldwide froze, financial markets began a series of freefalls, and governments and central banks scrambled to respond to the growing instability. A \$700 billion financial rescue plan, the Emergency Economic Stabilization Act of 2008 (EESA), passed both houses of Congress, and was signed into law by President Bush on October 3, 2008. The primary focus of the EESA was to be the purchase of “troubled assets” from financial institutions, through the Troubled Assets Relief Program (TARP). Two weeks after EESA became law, the program’s focus was revised to allow the Treasury Department to purchase equity stakes in banks, rather than purchasing troubled assets outright. Through the end of December 2008, approximately \$300 billion had been authorized and spent by the Treasury Department under TARP.

In a December 2008 press release, the Board of Governors of the Federal Reserve (Fed) made the following statements with regard to the overall condition of the U.S. Economy:

Labor market conditions have deteriorated, and the available data indicate that consumer spending, business investment, and industrial production have declined. Financial markets remain quite strained and credit conditions tight. Overall, the outlook for economic activity has weakened further. Meanwhile, inflationary pressures have diminished appreciably. In light of the declines in the prices of energy and other commodities and the weaker prospects for economic activity, the Committee expects inflation to moderate further in coming quarters. The Federal Reserve will employ all available tools to promote the resumption of sustainable economic growth and to preserve price stability. In particular, the Committee anticipates that weak economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time.

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