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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

May 2011

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

MAY 2011

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SUMMARY*

Reports from the twelve Federal Reserve Districts indicated that economic activity generally continued to expand since the last report, though a few Districts indicated some deceleration. Some slowing in the pace of growth was noted in the New York, Philadelphia, Atlanta, and Chicago Districts. In contrast, Dallas characterized that region's economy as accelerating. Other Districts indicated that growth continued at a steady pace. Manufacturing activity continued to expand in most parts of the country, though a number of Districts noted some slowing in the pace of growth. Activity in the non-financial service sectors expanded at a steady pace, led by industries related to information technology and business and professional services.

Consumer spending was mixed, with most Districts indicating steady to modestly increasing activity. Elevated food and energy prices, as well as unfavorable weather in some parts of the country, were said to be weighing on consumers' propensity to spend. Auto sales were mixed but fairly robust in most of the country, though some slowing was noted in the Northeastern regions. Widespread supply disruptions—primarily related to the disaster in Japan—were reported to have substantially reduced the flow of new automobiles into dealers' inventories, which in turn held down sales in some Districts. Widespread shortages of used cars were also reported to be driving up prices. Tourism activity improved in most Districts.

* Prepared at the Federal Reserve Bank of New York and based on information collected on or before May 27, 2011. 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.

Residential construction and real estate continued to show widespread weakness, except in the rental segment, where market conditions have strengthened and construction activity and development have picked up. Non-residential real estate leasing markets have been generally stable, while construction activity has remained very subdued. Loan demand was steady to stronger in most Districts, especially in the commercial and industrial sector, and widespread improvement was reported in credit quality.

Agricultural conditions were unfavorable across much of the nation, largely reflecting unseasonably cool and wet weather; widespread flooding along the Mississippi River hampered agricultural production in the Atlanta and St. Louis Districts. In the Dallas District, in contrast, drought conditions hurt the wheat crop and led to broader damage from wildfires. The energy industry showed continued strength, with robust expansion in oil drilling and extraction activity.

Labor market conditions continued to improve gradually across most of the nation, with a number of Districts noting a short supply of workers with specialized technical skills. Wage growth generally remained modest, though there were scattered reports of steeper increases for highly skilled workers in certain occupations. Most Districts continued to report widespread increases in commodity prices; manufacturers are said to be passing along a portion of the higher costs in the form of price hikes and fuel surcharges.

Consumer Spending and Tourism

Consumer spending was generally described as steady to up modestly since the last report, with most Districts indicating small increases from a year ago. Non-auto retail sales were indicated to be expanding steadily in the Philadelphia, Cleveland, Minneapolis, Kansas City and Dallas Districts, while sales were characterized as stable or decelerating in the New

York, Atlanta, Chicago, St. Louis and San Francisco Districts. Sales were reported to have declined in the Richmond District, and Boston described sales as mixed but generally down from a year earlier. Retail inventories were generally said to be at satisfactory levels, though St. Louis characterized inventory levels as being on the high side. A number of Districts noted that a combination of unfavorable weather and high fuel and food prices have weighed on consumer spending in recent weeks. Cleveland and San Francisco noted increased spending on discretionary items, and Philadelphia indicated that some luxury goods retailers fared relatively well. On the other hand, Chicago reported a decline in discretionary spending.

Most Districts reporting on vehicle sales indicated that they have been steady to stronger since the last report, specifically Richmond, Chicago, St. Louis, Kansas City, Dallas and San Francisco. In addition, Atlanta noted firm demand for automobiles. On the other hand, some softening in car sales was noted in the northeastern Districts of New York, Philadelphia and Cleveland. Many Districts indicated that supply disruptions, primarily from Japan, have contributed to lean inventories, which have impeded auto sales somewhat. There has also been widespread tightening in the market for used cars, reflecting both strong demand and a shortage of inventory. Shifts in consumer demand toward smaller, more fuel efficient cars were noted in the Philadelphia, Cleveland, and Chicago Districts, while St. Louis mentioned a shift from higher-end to lower-end models.

Tourism activity has generally strengthened since the last report, and the outlook for the summer season looks positive. Improvement in this sector was reported in the Richmond, Atlanta, Kansas City, and San Francisco Districts; in addition, New York reported that tourism increased in April but appeared to edge back in early May. Dallas maintained that

travel activity has been mixed, while Minneapolis indicated that tourism has been slow recently due to adverse weather, but that inquiries and advance bookings for the summer season look strong. St. Louis noted that flooding forced the temporary closure of numerous casinos along the Mississippi River.

Nonfinancial Services

Activity in the non-financial service sectors continued to strengthen in most Districts, with the notable exception of St. Louis, which reported fairly widespread declines. Service sector activity generally expanded in the Boston, New York, Philadelphia, Richmond, Minneapolis, Kansas City and Dallas Districts, though Richmond noted deceleration in the pace of growth. There were also pockets of strength in particular sectors. Information technology firms saw activity expand in the Boston, Richmond, Minneapolis, Kansas City, and San Francisco Districts. Employment agencies in the Boston and Chicago Districts indicated continued improvement in activity, while New York and Dallas reported some slowing in this industry. New York, Richmond and Minneapolis cited strengthening in business and professional services, while San Francisco indicated steady to mixed activity in this sector.

Activity in the transportation sector improved in the Cleveland, Atlanta, Kansas City and Dallas Districts. Philadelphia and Richmond noted some slowing in growth, and New York reported steady shipping activity, while San Francisco indicated a slowdown in cargo traffic at Southern California seaports. Dallas also reported weakening in container trade volumes but noted increases in cargo volume, railroad shipments and small parcel shipments.

Manufacturing

Manufacturing activity was reported as continuing to increase since the last report in all but two districts, although many noted that the pace of growth had slowed. The Boston, Atlanta, St. Louis, Minneapolis, and San Francisco, Districts reported that activity expanded, and the Dallas District reported a pickup in demand; the Philadelphia, Richmond, Chicago, and Kansas City Districts reported that activity expanded but at a slower pace, while activity was reported as steady in the New York District and stable to growing in the Cleveland District. Supply disruptions related to the earthquake in Japan led to reduced production of automobiles and auto parts in several Districts. The Cleveland District noted a sharp drop in auto production, the Atlanta and St. Louis Districts also saw production fall, and auto deliveries were reported as having declined in the Richmond District. The Atlanta District said lost production in its region would be made up later in the year. Contacts in the Chicago District said that contingency plans to deal with supply disruptions were helpful in mitigating the effects. High-tech firms in the Boston and Dallas Districts reported that shortages of parts, due to disruptions in Japan, had adverse effects on business; in contrast, there were few supply constraints that affected technology-related products in the San Francisco District.

Growth was reported as strong for semiconductors in the San Francisco and Boston Districts. The Cleveland District reported that steel producers were seeing shipping volumes level off after a strong first quarter performance, and the Chicago District noted a decline in second quarter orders for industrial metals, although orders for the third quarter were coming in at a more positive pace. A contact in the Richmond District said that demand for industrial metals had leveled off. The Chicago District reported a decline in activity for construction

materials and household goods. Production remained strong for makers of commercial aircraft and parts in the San Francisco District.

Looking forward, contacts in most districts were generally optimistic about the outlook, although less so than the last report. The Cleveland District said that the majority of manufacturing contacts maintained a favorable outlook, although some are delaying the start of capital projects. Contacts were generally cautiously optimistic in the Boston District, although some expect sales growth to moderate. Contacts were mostly positive about the outlook in the Philadelphia District, though the level of optimism was not quite as strong as in the last report. Chicago District contacts expect conditions to rebound in the coming months. A majority of contacts in the Atlanta District planned to increase production.

Real Estate and Construction

Residential real estate sales markets showed continued weakness in most Districts, while rental markets strengthened. Most Districts indicate that home prices have declined since the last report: Boston, Philadelphia, Richmond, Atlanta, Kansas City, and San Francisco all report some downward drift in selling prices, while reports from the New York and Cleveland Districts indicate that prices have been steady, on balance. No district indicates a general increase in home prices. Sales activity, though widely reported to be at low levels, picked up somewhat in the Philadelphia, Atlanta, Chicago, and Kansas City Districts. Dallas indicated that improved traffic has raised prospects of improved sales in the second half of 2011, and Boston observed signs that the market is stabilizing. Sales activity was characterized as mostly steady in the New York, Cleveland, Dallas and San Francisco Districts, but declining in the St. Louis and Minneapolis Districts. Those Districts reporting on the residential rental market—specifically, New York, Atlanta, Chicago, Minneapolis,

Dallas, and San Francisco—all indicate that conditions have strengthened. In terms of residential construction, activity has remained generally depressed, with a number of Districts reporting a large overhang of distressed properties. However, a number of Districts—New York, Cleveland, Atlanta, Chicago, and San Francisco—report improved prospects for development of multi-family rental properties.

Commercial and industrial real estate markets have generally been steady since the last report, though there have been scattered signs of a pickup. Commercial leasing markets showed modest signs of improvement in the Richmond and San Francisco Districts. Boston and Dallas noted some firming in property sales markets, but Kansas City reported declines in prices for office buildings. Non-residential construction, though widely reported to be at very low levels, rose modestly in the Boston, Chicago, Minneapolis, and Dallas Districts, though Chicago noted that public sector projects are becoming smaller. Cleveland observed a pickup in industrial and high-end commercial development but a pullback in healthcare-related projects. Richmond reported some pockets of strength in the retail market. More broadly, contacts in a number of Districts expressed a general sense of optimism about the outlook for the second half of 2011.

Banking and Finance

Most Districts described loan demand as mixed or slightly improved since the last report. Consumer loan demand showed some improvement in the Cleveland, Richmond, and St. Louis Districts, but held steady or weakened in the New York, Atlanta, Dallas, and San Francisco Districts. Demand for residential mortgages (including new purchases and refinances) increased in Cleveland but held steady in New York, Richmond, St. Louis, and Kansas City. Contacts in the Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Dallas,

and San Francisco Districts noted a modest uptick in business loan demand. The increase in business loan demand in Cleveland was described as broad-based, including a pickup in construction loan requests for multi-family dwellings. Boston noted an improved lending environment for commercial real estate, and demand for commercial mortgages increased in New York and Dallas. Commercial and industrial loan activity increased in Richmond, Chicago, St. Louis, Dallas, and San Francisco, held steady in New York, and decreased in Kansas City. Outside of banking, Chicago and San Francisco indicated increased investment activity by hedge funds, venture capital firms, and other forms of private equity.

Credit standards were reported to be mixed but, on balance, a bit easier in recent weeks. New York, Cleveland, and Atlanta noted increased credit availability for automobile loans; Atlanta, Minneapolis and San Francisco indicated easier credit for some types of business loans. Boston reported some easing in commercial real estate lending, but New York reported tighter standards in that segment. Credit standards on home mortgage loans tightened somewhat in the St. Louis District. A number of Districts noted improvements in overall credit quality: specifically, Philadelphia, Cleveland, Richmond, Kansas City, Dallas, and San Francisco. New York indicated rising delinquency rates on consumer loans but declining rates on commercial loans and mortgages.

Agriculture and Natural Resources

Agriculture conditions were unfavorable in many districts, with various weather related difficulties leading to delays and below-average plantings of key crops. Excess precipitation and cool temperatures delayed the planting of corn, soybeans, and other crops in the Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Kansas City Districts, although Richmond reported that some parts of its District benefited from favorable weather

conditions. Cool temperatures also delayed the development of some crops in the San Francisco District. Flooding on the Mississippi River slowed activity for farmers in the St. Louis and Atlanta Districts. The Dallas District reported that drought conditions had become severe and that the wheat crop was expected to be particularly poor; wildfires also led to significant agricultural losses in its District. Commodity prices were reported as strong in the Atlanta and Minneapolis Districts, but were down in the Chicago District. Hog prices were higher in the Chicago, Minneapolis, and Kansas City Districts, while cattle prices were reported as lower in the Chicago and Kansas City Districts but higher in the Minneapolis and Atlanta Districts.

Activity in the energy industry remained robust. Drilling activity was reported as strong and growing in the Dallas District, and work is being re-permitted in the Gulf of Mexico. The San Francisco District reported that oil extraction activity grew strongly in response to rising demand overseas, and that the demand for natural gas continued to expand. In the Minneapolis District, oil exploration activity increased. Contacts reported an increase in drilling activity in the Kansas City District, although shortages of equipment and labor created some drilling constraints. The St. Louis District reported that coal production was modestly lower.

Employment, Wages and Prices

Most Districts reported gradual improvement in labor market conditions since their last reports. Boston, New York, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, and Dallas all noted general improvement in employment conditions, while job growth was mostly limited to the manufacturing sector in the Cleveland and St. Louis Districts. Demand for permanent and temporary-to-permanent hiring increased in the Boston, Richmond,

Atlanta, and Chicago Districts. While labor was generally available, contacts in the Boston, Atlanta, Minneapolis, Kansas City, Dallas, and San Francisco Districts indicated that labor market conditions have tightened for workers with specialized technical skills, particularly in the healthcare and technology sectors. Despite signs of continued modest improvement in most labor markets, Minneapolis noted several examples of expected layoffs and St. Louis reported plans for layoffs in the District's services sector.

Wage pressures were reported to be largely contained in most Districts, as abundant labor availability has continued to limit the pace of wage growth. Modest wage pressures were reported in the Boston, Cleveland, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco Districts, while wages were reported as steady in New York and Philadelphia. However, contacts in the Minneapolis, Kansas City, Dallas, and San Francisco Districts noted that wage increases have been more significant for some highly skilled workers in occupations with labor shortages. Firms' expectations for labor and benefits costs moderated slightly in Atlanta.

Input prices continued to increase in most Districts, particularly for agricultural commodities, petroleum-based products, and industrial metals, although the pace of growth slowed in the Chicago and Kansas City Districts. In addition, several Districts reported that fuel surcharges have increased or become more widely used since the last report. While Boston indicated that firms were able to pass along most input price increases into selling prices, contacts in Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco noted only a limited ability to pass through these cost increases to their customers, with manufacturers generally being more successful than retail or construction firms. In general, selling prices increased only modestly, except for food and

energy prices, which continued to escalate. In addition, low inventory levels contributed to price increases for used cars in the New York, Cleveland, Chicago, and San Francisco Districts. Plans to implement future increases in selling prices were reported in the Boston, New York, Chicago, and Dallas Districts.

FIRST DISTRICT – BOSTON

Many business contacts in the First District report improving economic conditions. Firms in manufacturing, software and information technology, and staffing services cite ongoing increases in demand, with manufacturers reporting the most strength. Commercial real estate markets are improving modestly, retail reports are mixed, and residential real estate markets remain weak. Both retailers and manufacturers report input cost increases, which they are generally passing along to customers. Labor markets, by contrast, are seeing some net hiring, but wage increases remain subdued. Outlooks remain generally optimistic, although cautious.

Retail

First District retailers report mixed sales results for the period from late March through mid May, with comparable same-store sales ranging from low double-digit decreases to low single-digit increases. A few contacted retailers mention decreases in demand, and all express concern about the negative impact of rising fuel prices on their own costs, especially shipping, and on consumers' shopping habits.

Inventory levels are mixed, with one retailer explaining inventory has been temporarily increased due to global supply concerns, such as output disruptions in Japan. Contacts note steep price increases for commodities, including cotton, dairy, grains, meat, produce, and nuts; they are passing along price increases where possible. Headcount changes are mixed, as some firms add people in line with new store openings and select hiring opportunities, while one has cut jobs and anticipates outsourcing select positions. Capital spending is mixed. Outlooks range from concerned to cautiously optimistic.

Manufacturing and Related Services

Business conditions continue to be good at surveyed manufacturers. A parts manufacturer for autos and other vehicles reports that it is struggling to keep up with increased demand. A firm in the semiconductor industry also cites very strong sales growth in the first quarter of this year continuing into the second quarter. Reports from local pharmaceutical manufacturers are also favorable, especially compared with the end of last year, and a company in the medical devices business notes improving sales of its traditional product line after a lengthy period of very sluggish growth. Overall, contacted manufacturers are cautiously optimistic that growth will continue at a reasonable pace for the rest of the second quarter and into the second half of the year. Some firms, however, expect sales growth to moderate somewhat, in part because the second half of 2010 was strong for many respondents.

Commodity prices continue to be a concern for manufacturers whose production inputs include petroleum or gas-related products and/or firms that use a lot of metals such as steel. Most of the affected companies have already raised prices with little push-back from their customers, and a number of them plan to implement further price hikes this summer. By contrast, a pharmaceutical company with overseas sales notes downward pressure on their selling prices to government health care systems in Europe, which they attribute to ongoing fiscal imbalances across the Euro-area and related interventions to reduce costs and government debt. Some firms still report modest supply chain disruptions because of the earthquake in Japan (mostly semiconductor-related and other high tech inputs) or worldwide demand-related shortages of selected petroleum-related products. However, one affected firm notes that supply conditions have improved slightly recently and others say they continue to make adjustments to avoid a big impact on their production or sales.

The employment situation at surveyed manufacturers continues to be relatively stable, as many continue to try to increase output using existing workers. A semiconductor firm notes that the cost of this year's merit raises will be offset through other productivity gains, so the overall cost impact is negligible. Those firms that are hiring are doing so at a relatively moderate rate to meet increased demand for existing or new products. In particular, some pharmaceutical companies plan to meet increased demand by increasing their headcounts between 5 percent and 10 percent. Much of the hiring and investment at contacted firms is occurring overseas as they look to expand their operations, especially in Asia. Most respondents have already or plan to institute merit increases for their employees in 2011, ranging between 2 percent and 5 percent, which they note are a little lower than before the recent recession.

Capital spending at most contacted manufacturers continues to be in line with previous years. A few companies, however, are investing more in order to adjust their capacity to meet increased demand. Overall, the outlook for the contacted firms is favorable and most respondents seem somewhat more upbeat than at the beginning of this year.

Software and Information Technology Services

New England software and information technology firms report modest increases in activity through May. Year-over-year revenue increases, ranging from 4 percent to 20 percent, were generally driven by increases in software license revenues, while maintenance contracts grew at a slower rate. Contacts report pick-ups in demand across sectors, including manufacturing, financial, and medical. Increased activity has led to increasing headcounts, many by more than 5 percent from a year ago. Contacts generally cite a tightening labor market, especially for specialized technical positions, but note that it has not resulted in upward pressure on

wages. Selling prices are holding steady, although half of responding firms observe less discounting pressure currently than in Q4 2010; in fact, two contacts plan to raise prices modestly later this year. Capital and technology spending is mostly steady, with only two contacts reporting an increase in outlays. The outlook among software and IT services firms remains positive, with most expecting their current rate of growth to continue through the end of 2011.

Staffing Services

The majority of New England staffing contacts report that business conditions continue to improve, although a few have experienced stagnant or volatile activity over the past three months. Revenues are flat to increasing year-over-year, with increases from 3 percent to 35 percent. Labor demand continues to strengthen, with notable improvements in the information technology, medical, manufacturing, and legal sectors. However, a few contacts lament an elongated hiring cycle, with employers “still waiting for the perfect candidate.” Demand for permanent and temporary-to-permanent hiring continues to trend upwards—a sign that “things are heading in the right direction.” Labor supply, at least at the high end, continues to be tight in the region. Bill rates and pay rates are steady, with most contacts reporting only modest changes. Looking forward, most New England staffing contacts are more positive than they were three and six months ago, predicting strong growth in the rest of 2011.

Commercial Real Estate

Across the region, contacts report that commercial leasing activity remains modest, especially in the office sector where job growth has been tepid. The Hartford office market shows very light leasing activity and negligible absorption. In Providence, office leasing

volume was also very light, but rents are said to be firming up. Office leasing activity in Boston is described as slow-to-moderate, and some say recent activity is slower than in the first quarter. Boston deals consist largely of tenant renewals, resulting in little net absorption. The biotechnology and pharmaceuticals sector in Boston is seen as comparatively dynamic, generating strong demand for office space in Cambridge and planned new construction in Boston's waterfront area. In Portland, activity is flat for the most part, although at least one significant office leasing deal was signed. Investor interest in apartments remains strong in Boston, with some contacts expressing concern that sales prices are getting too high; interest in prime office properties also strengthened in Boston. The lending environment for commercial real estate is described as increasingly favorable to borrowers. The outlook among contacts is cautiously optimistic. All expect at least slow growth in office and retail demand for the remainder of 2011 and some see potential for significant improvement in market conditions by early 2012, although a few mention risks posed by fiscal conditions and related political uncertainty at both the state and national levels.

Residential Real Estate

Residential real estate markets throughout New England experienced significant declines in sales and median prices in April compared to a year earlier. Contacts attribute the sales declines to the homebuyer tax credit, which boosted sales for the first half of last year. Condominium sales fell during the same period, and the median price of condos slipped across much of the region. Most contacts see job security as a significant hurdle in the recovery of the residential real estate market. Several contacts also note that stricter lending requirements among large banks have shrunk the potential pool of homebuyers. In general, contacts report that potential buyers are anticipating further price declines and sellers

continue to price homes competitively in order to find a buyer quickly. While overall market activity remains weak, respondents see some improvement in the medium to high-end segments of the market.

Contacts throughout the region expect year-over-year declines to continue for the next few months because of last year's homebuyer tax credit. Although several contacts believe that much of the New England real estate market has begun stabilizing, they caution that a lengthy recovery still remains.

SECOND DISTRICT--NEW YORK

The Second District's economy has continued to expand since the last report, though at a somewhat diminished pace. Labor market conditions have continued to improve modestly. Retail sales have held steady at favorable levels since the last report. Consumer confidence reports have been mixed. Tourism activity picked up in April but tapered off a bit in early May. Commercial real estate markets have been relatively stable. The residential purchase market has been steady to somewhat softer, but the rental market has continued to improve; new residential construction remains low. Finally, bankers report further weakening in consumer loan demand, tighter credit standards on the commercial sector, and higher delinquency rates on consumer loans but somewhat lower delinquencies in other loan categories.

Consumer Spending

Retail sales have held steady since the last report and are running modestly above comparable 2010 levels. Sales were somewhat ahead of plan, despite unseasonably cool and wet weather, which likely had a small negative effect on spending. Two contacts—a major retail chain and a large mall in upstate New York—report that sales weakened in the first half of May, after a robust April. Inventories are reported to be in good shape. Selling prices have been steady overall, though some contacts describe the pricing environment as more promotional than a year ago. One major retail chain indicates that prices have been stable during the first half of the year; yet moderate price increases are planned for the second half of 2011—largely for cotton-based merchandise.

Auto dealers in upstate New York report that sales of new vehicles have cooled somewhat since the first quarter but remain at fairly high levels, up moderately from a year earlier. Some of the slowing in sales is attributed to supply disruptions related to the tsunami in

Japan. One local auto dealers' association reports an exceptionally low inventory of used vehicles, which has hampered sales volume and pushed prices up. Retail credit conditions continued to improve, while wholesale credit conditions were mixed.

Consumer confidence surveys have given mixed results. Siena College reports that consumer confidence among New York State residents fell to its lowest level of the year in April—largely attributed to surging food and energy prices. In contrast, the Conference Board reports that consumer confidence among residents of the Middle Atlantic states (NY, NJ, Pa) surged in April, reaching its highest level since late 2007; the rise was largely driven by improved perceptions of job availability.

Tourism activity in New York City strengthened in April, though there were signs of some pullback in May. Occupancy rates at Manhattan hotels moved up by more than the seasonal norm in April, and room rates accelerated, running 5-10 percent higher than a year earlier. Partly due to a spate of new show openings, Broadway theaters report that both attendance and total revenues surged in April and were running 10 to 15 percent ahead of a year earlier, after a sluggish March,. Attendance and revenues slipped in May, although both were still up from a year earlier.

Construction and Real Estate

Housing markets across the District have been mixed since the last report: the home purchase market has been steady to somewhat softer, but the rental market has continued to strengthen. Buffalo-area Realtors report steady market conditions, with sales activity and pending sales down from a year earlier but prices up roughly 5 percent. More broadly, home prices have been running moderately ahead of a year earlier across most of upstate New York, despite pockets of weakness in metropolitan Rochester and Albany. However, prices in the

New York City metropolitan area, including northern New Jersey and southwestern Connecticut, have drifted down slightly and are modestly lower than a year ago.

An authority on New Jersey's housing industry reports that sales of existing homes have slowed since the last report, and new home sales remained depressed. A sizable inventory of foreclosed properties—roughly equal to nine months of sales—is reported to be putting downward pressure on home prices overall. However, low volume and a sizable incidence of distressed sales make it difficult to gauge price trends in northern New Jersey. Activity in New York City's co-op and condo market was mixed but generally stable since the last report, with Manhattan, Brooklyn and Bronx holding steady—in terms of both prices and sales activity. Some softening was evident in Queens and Staten Island. Long Island's market has been stable, though conditions have weakened in the Hamptons, where sales activity is off, especially at the high end.

In contrast with the sluggish purchase market, rental markets have performed fairly well, particularly in New York City: Manhattan rents are reported to be up roughly 6 percent from a year ago. Moreover, when the widespread withdrawal of landlord concessions is factored in, the rise in effective rents has been steeper. Rental vacancy rates have drifted down. Contacts in both New York City and northern New Jersey see relatively little new residential construction, and note that most new and proposed development is for rental housing.

Commercial real estate markets have been largely steady since the last report. Office markets showed signs of modest improvement in New York City, Long Island, and most of upstate New York, as vacancy rates edged down while asking rents were steady to up slightly. However, market conditions weakened somewhat in northern New Jersey, Westchester and Fairfield Counties, and in the Albany area. Industrial vacancy rates rose in Long Island but

were little changed in other markets. In much of the District, asking rents on industrial properties, which had been declining through the end of 2010, have leveled off or moved up modestly in recent months.

Other Business Activity

Reports from business contacts give a mixed picture of the labor market. A major New York City employment agency reports that, after a robust March, hiring activity weakened noticeably in April and early May, though it picked up again in the third week of May. Still, the supply of available workers has dwindled further, and more workers are testing the water and leaving current jobs for new ones. Starting salaries have remained steady and below pre-recession levels. Law firms, in particular, have started hiring more, while financial sector hiring has been stable. A contact in the securities industry reports that the jobs being added there tend to be mostly in support areas, such as legal and compliance, as opposed to revenue-generating areas.

Non-manufacturing firms broadly indicate that both business and hiring activity have been steady to modestly higher since the last report. Contacts have become slightly less optimistic about the near term outlook and have scaled back hiring plans somewhat. Non-manufacturing firms report that cost pressures remain widespread but have not broadened since the last report. Manufacturing firms in the District report that business activity was generally steady in April and early May. Contacts report that they are adding workers, on net, and plan to continue to do so in the months ahead. Manufacturers also note increasingly widespread price pressures, and roughly two in five say they plan to hike their selling prices in the months ahead. A trucking-industry contact reports that shipping activity has shown no sign of slipping, despite the recent surge in diesel prices.

Financial Developments

Reports on loan demand were mixed: small to medium sized banks indicate a decrease in demand for consumer loans, an increase in demand for commercial mortgages, and no change in the demand for residential mortgages and commercial and industrial loans. Respondents indicate no change in credit standards for the household sector but a tightening of standards for commercial loans and especially commercial mortgages. Bankers report a decrease in spreads of loan rates over costs of funds for all loan categories—particularly on residential mortgages. There were also fairly widespread decreases in deposit rates. Finally, delinquency rates rose for consumer loans but decreased for commercial mortgages and, to a lesser extent, on commercial and industrial loans. Delinquency rates on residential mortgages were unchanged.

THIRD DISTRICT – PHILADELPHIA

Business activity in the Third District has improved overall since the last Beige Book, although the pace has softened. Manufacturers reported increases in shipments and new orders in May, although at a much slower pace than the past two months. Retailers posted slight year-over-year sales increases in May. Motor vehicle dealers reported a slowdown in sales during May compared with the first four months of the year. Third District banks reported little overall change in loan volume outstanding, on balance, since the last Beige Book. Residential real estate agents said sales have increased seasonally, but house prices have been flat to down. Contacts in the commercial real estate sector said that market conditions have shown little change since the first quarter. Service-sector firms reported modest increases in activity. Business contacts reported further price increases for inputs as they did in the previous Beige Book. There have been some retail price increases, and more firms in a range of sectors have implemented fuel surcharges.

Expectations among Third District business contacts are mostly for slow growth. Manufacturers forecast a modest rise in shipments and orders during the next six months. Retailers expect sales to advance slowly on a year-over-year basis. Auto dealers say the outlook is uncertain. Bankers expect only slight growth in lending. Contacts in residential real estate expect moderate seasonal gains in sales, but they expect sales for this year as a whole to be about the same as sales last year. Contacts in commercial real estate expect conditions to improve slowly, with markets firming around the end of the year. Service-sector companies expect continued slow growth.

Manufacturing

Reports of widespread, robust demand growth for manufactured products as of the last Beige Book gave way to two months of easing in the breadth and pace of recovery. Less than 30 percent of Third District manufacturers reported increases in shipments and orders in May — slipping from over 50 percent since the last Beige Book. Among key manufacturing sectors in the Third District, the number reporting increases of both shipments and orders narrowed to 7 from 13 since the last Beige Book. The strongest reports of orders came from producers of chemicals; food; stone, clay, and glass; and fabricated metal products. Since the last Beige Book, declines in orders broadened from producers of apparel and rubber products to include producers of electronic equipment and instruments. Failure to pass a multiyear transportation infrastructure reauthorization bill and the ongoing real estate slump were cited by five different manufacturing sectors as hampering the recovery.

Third District manufacturers remain mostly positive about business conditions over the next six months; however, the percent of firms expecting increases fell off sharply since the last Beige Book, from 66 percent to 36 percent. Among the firms contacted in May, about 38 percent expect increases in new orders and shipments, while about 20 percent expect decreases. A little uncertainty has crept back into manufacturers' expectations, with several contacts citing “swings” in activity. Capital spending plans over a six-month planning horizon have changed little since the last Beige Book, with about one-third of firms projecting increases.

Retail

Third District retailers generally reported small year-over-year increases in sales in May, although results varied by store type. Discount stores and some luxury goods retailers posted better increases than mid-price retailers and department stores. Retailers said sales of spring

apparel have been held back by cool, rainy weather. Several merchants said that high gasoline prices were deterring shopping trips and constraining consumers' discretionary buying. Looking ahead, store executives expect just slow growth in sales. One merchant's comment expressed the general opinion: "The consumer is responding to value. Only confidence in the job situation will prompt broader buying."

Third District auto dealers generally reported that sales slowed in May from the pace set from January through April. Some dealers said they were facing supply constraints resulting from the interruption of Japanese vehicle and parts production, and some dealers said demand has slowed as consumers reconsider model preferences in response to higher gasoline prices. Dealers are uncertain of the future course of sales; most said the sales rate going forward will be more sensitive to gasoline prices and consumer confidence than it had been earlier in the year.

Finance

Third District banks contacted in May gave mixed reports on loan volume outstanding. Some posted increases in consumer and business loans, but others reported drops in these categories since the last Beige Book. On balance, total credit extended by banks in the region has been flat in recent weeks. Although some bankers have had recent increases in loan demand from small and medium businesses, most said demand for credit from this sector has been weak. "Loan demand hasn't moved at all," one said, even as competition among lenders has increased. Most of the banks surveyed in May indicated that credit quality has been improving, although some said the pace of improvement has been slow. Looking ahead, the general view among the region's bankers is that loan demand will move up slightly, at best, in the near future.

Real Estate and Construction

Residential real estate activity has picked up since the previous Beige Book in most parts of the Third District, according to residential real estate agents contacted for this report. Agents continued to note that the sales pace has been relatively stronger for middle- and low-price homes and weaker for high-price homes. Agents attributed the improved sales pace to the usual seasonal gain and buyers' concern that mortgage loan rates are likely to increase in the future. Looking ahead, residential real estate agents expect sales for this year as a whole to be level with last year. An agent who remarked that "we are off the bottom, but it's going to be a slow comeback" expressed a common opinion. Residential agents generally reported flat to slightly falling house prices for existing homes. New homebuilders indicated that these lower existing home sales prices further reduced their customer traffic in May. While they see more committed buyers among the traffic, overall demand for new homes remains flat.

Commercial and industrial market conditions in the Third District have shown little change since the previous Beige Book, according to area nonresidential real estate contacts, although some noted that office vacancy rates have edged down slightly in some areas. Rents have been steady in most areas, and concessions remain common. Contacts in commercial real estate reported that demand for space in Class A office buildings has strengthened relative to Class B space as local companies relocate upon lease expirations. "Companies are trading up for higher quality," one contact said. This trend is expected to continue for the rest of this year, and any reduction in vacancy rates for less desirable buildings is expected to lag the modest decline in Class A vacancy rates that commercial real estate agents forecast for the balance of 2011. Industrial rents have been flat, but some contacts expect them to rise toward the end of the year as demand for space grows in the absence of new supply.

Services

Third District service-sector firms contacted for this report generally described demand for their services as growing modestly. Business-service firms noted some increased activity as a result of both greater usage by current clients and demand from new client companies. An executive at a business-service firm said, “Our activity in cyclical sectors is starting to improve.” Contacts in the transportation sector reported some recent easing in the slow, steady growth rate that held for the first four months of the year. Contacts in engineering and architectural services reported slight gains in current activity and a somewhat stronger upturn in inquiries. Most of the service-sector firms polled in May expect growth to continue at around its recent pace.

Prices and Wages

Since the previous Beige Book, nearly half of all manufacturers reported rising factor prices, especially for energy and commodities, but less than half of those firms are able to pass costs through to their customers. However, imposition of fuel surcharges by service firms in the region has increased. Retailers generally indicated that selling prices have been steady, except for food products and some petroleum-based products and imports. Retailers noted that consumers continue to favor lower price-point merchandise, and stores are continuing to alter merchandise selection to include more of those items.

Business firms in the region reported mostly steady wages since the last Beige Book. Reports on nonwage employment costs varied; some firms indicated that benefits costs, primarily for health insurance, have been stable, but others indicated that they have had increases ranging up to 10 percent or more compared with a year ago.

FOURTH DISTRICT – CLEVELAND

Business activity in the Fourth District continued to expand at a modest pace since our last report. Manufacturers reported a slight rise in production, though several noted a softening in market conditions. Freight transport volume increased for a broad range of manufactured goods. Information received from retailers remained positive, while auto dealers experienced a slight downturn in sales. Energy producers noted little change in output. New home construction was sluggish, whereas nonresidential building is picking up some. The demand for business credit rose slightly, and activity in consumer lending was mixed.

Rising payrolls were mainly limited to the manufacturing sector. Staffing-firm representatives noted moderate growth in the number of new job openings, with vacancies concentrated in health care and manufacturing. Wage pressures are largely contained. Reports of elevated prices for commodities, steel, fuel, and other raw materials were common. As a result, manufacturers, retailers, and freight carriers passed through some of these higher input prices to their customers.

Manufacturing. Reports from District factories indicate that production was stable or slightly up during the past six weeks, with a moderate rise in backlogs. A majority of our contacts maintain a favorable outlook, some of which was attributed to strength in offshore markets. However, several manufacturers said that market conditions are beginning to soften. Many steel producers and service centers reported that the rise in shipping volume seen in the first quarter is beginning to taper off, due in part to pricing issues and declines in consumer demand. Shipments are being driven by capital goods, autos, and energy-related industries. They anticipate volume remaining at current levels until a seasonal slowdown, which typically occurs during the third quarter. District auto production dropped sharply during April on a

month-over-month and year-over-year basis. Most of the decline was due to supply disruptions caused by events in Japan.

Manufacturers remain committed to raising capital outlays in the upcoming months relative to year-ago levels. Nonetheless, about a third of our contacts reported that they are delaying the start of some projects. Capacity utilization rates are below what is considered normal for a majority of manufacturers. Prices for metal and agricultural commodities, steel, and petroleum-based products remain elevated. Most of our contacts reported passing through some of these higher input prices to their customers. A few producers commented that steel and scrap prices have peaked and are expected to begin falling back. Manufacturers continued hiring at a modest pace, with most new hires being higher-skilled workers. Several contacts also noted a slight increase in wage pressures.

Real Estate. New home construction remains at a very low level, with purchases mainly in the move-up buyer categories. The uptick in traffic and sales noted in our last report was not sustained. Two of our contacts told us that more interest exists in multi-family construction than single-family. Home builders do not expect the market to turn around any time soon, which they attributed to tight credit, a glut of houses on the market, and the fact it currently costs more per square foot to build a new house than to buy an existing house. List prices and discounting of new homes held steady, while some upward pressure on the cost of building materials was reported. Several builders said they want to construct more spec houses, but banks are unwilling to provide financing. Subcontractors are doing somewhat better due to facing less competition and taking on additional remodeling work. General contractors continue to work with lean crews, and no hiring is expected in the near term.

Information on nonresidential construction varied widely. However, one aspect our

contacts agreed on was a moderate improvement in inquiries. Activity is being driven by industrial projects and high-end projects (greater than \$100 million) that are now in the construction phase, after several years of planning. We heard reports of a pullback in healthcare-related work. A majority of our contacts expect that activity will slowly improve as the year progresses. Financing is more readily available if developers are willing to increase their equity share. We heard reports of increased prices for building materials, particularly for steel. One contact noted that materials suppliers are holding back price increases due to a lack of demand. Contractors are absorbing rising materials prices in their margins. General contractors held payrolls steady, and they expect little, if any, new permanent hiring in the upcoming months.

Consumer Spending. Reports from retailers indicate that sales for the period from early April through mid-May rose in the low to mid-single digits and were generally on or ahead of plan. However, some of the increase was attributed to the rise in gasoline and food prices. Transactions were mostly higher relative to year-ago levels. Many of our contacts noted that rising sales included discretionary items. Looking forward, retailers are cautiously optimistic about third-quarter sales. We continue to hear about rising vendor prices, although they were mainly limited to food- and fuel-related products. Retailers passed through some of the increases to consumers. Reports on profit margins were mixed, with declines taken primarily by grocers. Capital outlays remain on plan and are slightly higher than year-ago levels. No change in payrolls is expected at existing stores.

Auto dealers reported that new-vehicle sales showed a slight downturn during April and early May. March sales were given a big boost due to regional auto shows. On a year-over-year basis, vehicle purchases increased for almost all of our contacts. Demand for smaller, fuel-

efficient cars continues to rise, while inventories were characterized as somewhat low by most dealers and may be hurting sales. Dealers are cautious in their outlook due to high gas prices and concern over the availability of vehicles with a Japanese nameplate. Demand for used cars is fairly strong, especially those that are fuel efficient. However, scarce inventory is contributing to rising prices. Credit availability and pricing have improved, and the use of leasing as a credit alternative is growing. Automakers are now putting in place timetables for dealers to complete reimagining and expansion of their facilities. The only roadblock from the dealers' perspective is the ability to obtain financing. Most auto dealers are beginning to hire on a selective basis.

Banking. Demand for business loans was stable or grew at a modest pace. Industries driving loan demand were broad-based, with a few of our contacts noting a pick up in construction loan requests for multi-family dwellings. On the consumer side, demand for home equity lines of credit and vehicle purchases (direct and indirect) remains strong, while activity in other installment loan categories was weak. Interest rates for business and consumer credit were stable, but competitive. Half of our contacts noted an uptick in the residential mortgage market, with activity equally distributed between refinancing and new purchases. Overall core deposits continue to grow, especially in demand accounts. The credit quality of business and consumer applicants was characterized as steady or improving. Delinquency rates were stable or trending down across loan portfolios, with the exception of real estate. Staffing levels have shown little change during the past few weeks, and about half of our respondents said that they expect some selective hiring to occur during 2011.

Energy. Reports indicate that oil and natural gas drilling and production held steady during the past six weeks, with little change expected in the near term. Wellhead prices paid to

independent producers were flat for natural gas and continued on a modest upward trend for oil. Coal production was stable to moderately lower since our last report, with little change anticipated for the remainder of the year. Spot prices for coal, especially metallurgical, are moving higher, which was attributed in part to a rise in transportation costs. We heard several reports of increased prices for diesel fuel, equipment, parts, and materials used in coal production. Severe spring weather in the Midwest is interfering with coal shipments to utilities and exports from New Orleans. Energy payrolls are expected to remain at current levels.

Transportation. Freight transport executives reported that shipping volume expanded for a broad range of manufactured goods, and they expect markets will continue to grow in the upcoming months. Several contacts told us that they are attempting to raise their shipping prices as customer contracts come up for renewal, and they are seeing a slight bottom-line improvement. The price for diesel fuel remains elevated, with most of the increase being passed through to customers via surcharges. We also heard several reports about rising costs associated with recent changes in environmental and federal safety regulations. Capital outlays are expected to accelerate during 2011, if financing can be obtained. Spending will be mainly for replacement, although some additions to capacity have been announced. Hiring has been for driver replacement, seasonal work, and maintenance mechanics. Wage pressures are emerging due to a tightening of the driver pool.

FIFTH DISTRICT–RICHMOND

Overview. Economic activity has been sending increasingly mixed signals since our last report. The banking sector improved moderately, led by gains in commercial and industrial lending. Tourism also strengthened, with holiday bookings expected to be above year-ago levels. Reports on District labor markets were generally positive; however, employment agents noted that some manufacturing clients were cautious about hiring. Residential and commercial real estate agents generally described activity as mixed. Moreover, manufacturing lost momentum, with several contacts noting that demand had leveled off in recent weeks. In addition, revenue growth among non-retail service firms weakened, and retailers said that sales fell over the last month as shopper traffic dropped sharply. Manufacturing firms reported that input prices grew at a faster pace since our last report, but pass-through was limited and price growth at services firms remained moderate.

Manufacturing. District manufacturing cooled in May after expanding for seven months. Several textile and apparel contacts described their business as being unpredictable, with “very little depth.” Similarly, a producer of coated steels mentioned that, although the first quarter had been fairly strong, order volume had been going down since then. Also, a supplier of specialty materials reported that his business had leveled off in recent weeks because demand for his customers’ goods had slowed. Several contacts stated that the disruptions in Japan had affected automotive deliveries, due to lack of electronic components and paints. Firms reported that their customers were strongly resisting any price increases, despite knowing that commodity prices were rising. Our latest manufacturing survey revealed that prices of raw materials rose notably over the last month, but prices of finished goods were up only moderately.

Retail. Retail sales generally slowed since our last report. Several firms attributed the slowdown to higher gasoline prices. A central Virginia retailer noted that, even though consumer confidence was good in the area, buying behavior was “tentative, as customers’ needs were superseding their wants,” driving stores to compete aggressively on price. Apparel and general merchandise retailers reported soft sales, and a large bookseller in central North Carolina stated that sales had weakened over the last month. In contrast, a store manager at a big box discount store in Virginia Beach said sales had improved in the last month and that the store was hiring again. Most auto dealers that we contacted cited flat-to-stronger sales, despite scattered reports of inventory or parts shortages caused by the Japanese crisis. Grocery sales remained solid, and several contacts reported passing through price increases to their customers. A number of surveyed wholesalers reported faster revenue growth in recent weeks. Durable goods wholesalers generally noted a pick-up in revenues despite the reported ongoing slump in retailers’ big-ticket sales. Retail prices edged up, and wages were little changed.

Services. Contacts at non-retail services firms reported somewhat slower revenue growth in recent weeks. Executives at several healthcare facilities noted flat demand for services over the last month. One hospital administrator also expressed uncertainty about the financial effect on his hospital of the increase in “newly insured” populations under healthcare reform. He noted significant challenges for smaller, rural hospitals with respect to information technology investments needed to secure federal matching opportunities. In contrast, professional, scientific, and technical firms that we survey reported slightly quicker revenue growth. Price growth at services firms was mild, while wage increases were widespread. A healthcare system executive in central Virginia reported that salary pressures were being driven by shortages in some specialties.

Finance. Lending activity posted modest but broad-based gains across the District over the last few months. Commercial and industrial lending expanded, especially for capital equipment and storage facilities. Several community bankers also cited increasing loan demand from small businesses. These borrowers had new orders from large manufacturers, who were subcontracting to keep up with demand. Consumers were starting to use credit cards again, according to several lenders, and were increasingly seeking financing for autos and home improvements. However, a contact at a large bank in North Carolina reported making very few home equity loans, and most bankers reported seeing little new mortgage lending activity. Most lenders cited improvement in their balance sheet quality, with delinquencies and charge-offs down markedly.

Real Estate. Residential real estate agents in the Fifth District gave varied reports. An agent in the D.C. area described the housing market as “terrific,” noting that April produced the highest number of sales since June 2005, with the exception of last March and April, when sales were boosted by the first-time buyer program. In Richmond, however, a contact mentioned that unit sales had dropped quite a bit, along with foot traffic. Sales in the lower-price range were reported as faring much better than sales in the upper ranges. A Realtor in Richmond said that sales of homes in the \$400,000 to \$1 million price range had increased compared to a year ago. He pointed out, however, that sales were contingent on the houses being in perfect condition, with extremely competitive pricing. While most contacts reported that they had not seen any change in the proportion of distressed sales, one agent noticed an increase of short sales and stated that the entire short sale process remained a major issue for buyers. On balance, most contacts said that transaction prices had either flattened or continued to decline.

Commercial real estate activity was mixed across market segments and geographic areas of the District over the last month. Pockets of modest strength were noted in demand for retail space in the Hampton Roads area, as gains in retail sales in recent months bolstered retailers' confidence, according to a local Realtor. A West Virginia Realtor reported that the leasing of office space had picked up, but both retail and industrial demand remained stagnant. However, the demand for office space in Baltimore was described as "spotty at best" by one Realtor. A central Virginia Realtor noted improved commercial leasing activity and modest gains in demand for the retail space, but leasing of industrial space was unchanged over the last month. A North Carolina Realtor reported modest, but widespread improvements in leasing, while several contacts in the DC area cited mostly softer leasing activity over the last few weeks. Contacts generally characterized rents as having stabilized, and several Realtors stated that banks were more willing to lend than earlier in the year. A Maryland contact in commercial construction stated that area contractors were unable to increase prices due to weak demand, but subcontractors were having more success at passing through increases in commodity costs.

Labor Markets. Labor conditions were flat to slightly stronger since our last report. Several employment agents were upbeat, but noted localized areas of softness in demand across the District. Some employment agents indicated that they were placing more permanent workers than they were a year ago. However, a branch manager of one agency in Raleigh said that some manufacturing clients remained cautious about hiring decisions due to the instability of incoming orders. A Hagerstown agent said, "Growth is not surging forward quite as much as a few months ago, but we are still seeing growth in demand compared to a year ago." He noted, however, that gains were somewhat uneven because the demand for extra workers seemed to come and go within short time frames, indicating volatility in his clients' own sales and

production. Retailers made few hiring changes in recent weeks, following an extended period of payroll cuts, according to recent survey participants. However, the store manager at a chain discounter in North Carolina remarked that a local manufacturer had begun recalling laid-off workers, which included some store employees; because the manufacturing wages were more attractive than what he could offer well-qualified applicants, he will cover the vacancies with more hours for seasonal workers. Services providers continued to add employees, although the overall pace of hiring in the sector slowed from a month ago.

Tourism. Tourism in the District continued to show signs of improvement in recent weeks. Airport contacts in Maryland and Virginia reported strong business travel since our last report. In addition, recreational industries, restaurants, and hotels noted stronger revenue growth, according to our contacts. A contact on the North Carolina coastline told us that tourist activity had increased compared to year-ago levels, and house rentals were up as much as 20 percent or higher in the last few weeks. A tourism contact in Washington, D.C. reported that the number of incoming tour buses was unusually high, and the nation's capital expected more than 500,000 tourists on Memorial Day weekend.

Agriculture. Rain and below-average temperatures hindered cotton planting in South Carolina and delayed corn and soybean planting in parts of Virginia and West Virginia. In contrast, cotton planting was almost complete in Virginia and planting of peanuts was progressing on schedule. In Maryland and Virginia, vegetable growers continued to plant summer crops and harvesting of greens and strawberries was well underway. Moreover, an analyst in Maryland noted that a large amount of good quality hay had been cut and baled, due to good drying conditions. In addition, pastures continued to green-up. Lastly, peach conditions

in South Carolina and West Virginia ranged from fair to excellent, with most orchards in good condition.

SIXTH DISTRICT – ATLANTA

Summary. Sixth District business contacts reported that economic activity moderated somewhat in April and May. Retailers experienced a deceleration in sales and traffic, which they attributed to periods of adverse weather and high gasoline prices. Tourism-related spending, however, increased across all segments of the industry. Homebuilders noted continued low levels of sales and construction, while brokers cited modest improvements in sales and traffic. In spite of declines in residential inventories, prices also decreased for both new and existing homes. Commercial contractors reported that new construction activity remained weak. Overall, the majority of manufacturers continued to report increases in new orders and production. Auto manufacturers, however, reduced production because of supply constraints stemming from the Japanese earthquake. The late April tornadoes in several states and flooding on the lower Mississippi River had a significant impact on economic activity in the directly affected areas, but no major damage to the energy or transportation infrastructure was reported. Bankers reported that loan demand had improved slightly from weak levels. Labor markets continued to improve gradually across the District. Firms expressed concern over rising commodity costs as margins remained tight and productivity gains became more difficult to realize.

Consumer Spending and Tourism. Most District merchants signaled a deceleration in sales in April and May after moderate increases earlier in the year. Retailers said that periodic adverse weather conditions and high gasoline prices combined to dampen sales across the District. Contacts reported that they continued to manage inventories tightly. The outlook among District retailers remained optimistic. Auto dealers noted both declining inventories and firm demand.

Tourism activity improved further throughout the District. Occupancy and room rates were boosted by increases in both business and leisure travel. Convention and cruise bookings have increased as well. Overall, contacts in the travel industry remained optimistic. Several restaurant contacts reported that sales were somewhat softer and that higher food prices had led to tighter margins.

Real Estate and Construction. District homebuilders indicated that new home sales and construction remained at very low levels in April and May. Several Alabama builders reported that in many areas repairs and rebuilding from the April tornado damage was underway.

District residential brokers indicated that existing home sales growth remained slightly ahead of the year-earlier level, but softened somewhat from March to April. However, the majority of Florida brokers continued to experience gains. Florida contacts again noted that distressed sales and cash buyers were significant drivers of activity.

Both residential builders and brokers indicated that housing inventories eased on a year-over-year basis. District brokers noted more modest price declines than earlier this year, while most builders continued to cite downward pressure on home prices. Brokers reported that buyer traffic improved, while builders indicated weaker buyer interest.

Nonresidential construction activity remained at low levels during April and May. Commercial brokers indicated that most markets continued to stabilize, but the pace of activity remained slow. Growing demand for apartments spurred an increase in multifamily development in several parts of the region. Overall, commercial construction activity is expected to remain at low levels for the rest of the year.

Manufacturing and Transportation. District manufacturers noted an increase in new orders and production in April and May. The majority of contacts planned to increase production in the short-term. The exceptions were auto producers and parts suppliers that experienced input constraints stemming from the Japanese earthquake. However, these contacts reported that lost production would be made up later in the year as supply channels returned to normal. District ports reported increased volumes in cargo and shipments. Air cargo contacts noted that tonnage was returning to near pre-recession levels. Railway firms cited strong increases in exports of chemicals, coal, and other energy-related products to China and India. The flooding of the Mississippi River is not expected to cause long-term disruptions to maritime traffic.

Banking and Finance. Businesses outside of the construction and real estate segments reported a slight improvement in credit availability. Banking contacts remarked that business loan demand had improved modestly, but new firms had difficulty qualifying for credit because of their inability to meet cash flow requirements. Bankers indicated that consumer loan demand remained flat as consumers continued to pay down equity and consolidate debt. Credit availability for auto loans continued to improve. Some firms continued to rely on cash reserves for capital expenditures and expansions. District banks also noted an increase in credit requests from agriculture customers.

Employment and Prices. Labor markets continued to improve gradually across the District. Most business contacts planned to either increase staff levels or leave them unchanged. Firms that plan to increase employment were doing so in response to increased demand and because they have maximized productivity with their existing staff. Staffing agencies continued to experience high demand for temporary workers as well as an increase in temp-to-hire

positions. Some contacts reported difficulty finding qualified candidates to fill specialized, higher skilled positions, especially in healthcare and communications/technology sectors. Firms that are not increasing employment cited high operating costs and uncertainty about future demand as constraints to hiring plans.

Firms' expectations for unit cost increases have moderated slightly since the beginning of the year as their outlook for labor and benefits costs were revised down. However, prices of commodity-linked materials continued to rise and downward price pressures from productivity gains were noted as tapering off. District contacts continued to report that margins remain squeezed and their ability to raise selling prices was mixed.

Natural Resources and Agriculture. The number of rigs operating in the Gulf of Mexico is at roughly half the pre-Gulf of Mexico oil spill level. Several energy infrastructure manufacturing firms noted an increase in capital investment. The Mississippi River flooding has caused minor disruption to river traffic, which, in turn, may affect production in some oil refineries and chemical plants. The interruptions are expected to be short-lived, and there are no reports of damage to transportation or energy infrastructure.

Much of the District experienced difficult weather conditions in April and May. An abnormally cold, wet spring and severe storms have delayed planting in some areas. Producers of poultry, cattle, and timber experienced losses as a result of the tornadoes as well. Many farmers in Mississippi and Louisiana are experiencing some degree of flooding from the Mississippi. Prices for many of the District's agricultural products remained strong, particularly cotton, soybeans, and beef, although the recent record-high cotton prices have declined because of some pull back in global demand.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District expanded more slowly in April and May. Growth in consumer spending was slower, while the rate of increase in business spending was steady. Manufacturing production grew more slowly, and construction was again subdued. Credit conditions continued to improve. There was some further pass-through of higher commodity prices to downstream prices. Planting of corn and soybeans was delayed by wet and cool weather.

Consumer spending. Consumer spending increased at a slower rate than during the previous reporting period. Retailers reported that sales were mostly flat. Higher food and energy prices caused consumers to make fewer shopping trips and purchase fewer discretionary items. Auto sales edged up, as higher demand for passenger cars offset a slight decline in sales of trucks and SUVs. Auto dealers reported that their inventory levels of small passenger cars were starting to come under pressure due to higher than anticipated demand for fuel efficient vehicles and production disruptions related to the situation in Japan. Dealers of Japanese vehicles expect that supply problems will continue to affect their inventory levels for the remainder of the year. These supply constraints were noted to be causing used car prices to rise, as well as benefitting passenger vehicle sales of the Detroit automakers. Quality improvements were also said to have put the Detroit 3 in a better competitive position.

Business spending. Business spending increased at a steady pace in April and May. Inventories were little changed on balance. However, a few manufacturers in the auto industry said they had increased inventories to guard against potential future supply disruptions stemming from the situation in Japan. Contacts indicated that capital expenditures were proceeding as planned, with some manufacturers reporting a slight increase in capacity. There

also was a pick-up in merger and acquisition activity in the manufacturing sector. Labor market conditions improved with continued strength in manufacturing, where contacts again cited a shortage of qualified applicants for highly skilled trades. A large staffing firm reported that billable hours ticked up and permanent placement activity continued to increase. However, demand for temporary workers softened in some regional labor markets and remained slow in some industries, such as finance.

Construction/real estate. Construction activity was again subdued in April and May. Single-family home construction continued to be constrained by the overhang of distressed properties in the resale market. However, existing home sales picked up in parts of the District, lowering the inventory of unsold homes to a degree. In the multifamily sector, the rental market continued to improve. Residential rents rose further, and credit has become increasingly more available for the purchase of apartment buildings. With minimal single-family and condo development planned in the District, contacts expect to see an increase in the construction of apartments in the near future. Nonresidential construction edged up with stronger demand from the automotive industry, small retail projects, and renovation. Contacts indicated that while more private sector building projects are coming up for bid, stiff competition continues to put downward pressure on pricing. Furthermore, while public sector projects remain a source of strength, they are becoming smaller. Commercial real estate conditions were little changed, with vacancy rates steady and landlords keeping commercial rents low to maintain occupancy at existing levels.

Manufacturing. Manufacturing production growth slowed from the previous reporting period, although contacts expected the recent slowdown would be temporary with conditions expected to rebound in the coming months. Capacity utilization in the steel industry was only

marginally lower; and while other manufacturers of industrial metals noted a softening in orders for second quarter delivery, several also indicated that order books for third quarter delivery were more positive. A contact speculated that the recent volatility in industrial metals prices was leading some customers to delay orders, expecting lower surcharges in the coming months and to avoid getting caught holding inventory at elevated prices. Manufacturers of construction materials and household goods also reported a decline in activity. In contrast, orders for heavy trucks, agricultural and construction equipment were up. Fleet replacement and robust activity in oil and gas extraction were cited as reasons for the continued strength in demand for heavy equipment. Supply chain disruptions reduced activity in the automotive sector, but mostly for the Japanese automakers and their suppliers. District automakers were able to avoid the most severe dislocations by reallocating parts to vehicles that are in high demand and implementing contingency plans for alternative supply sources. Contacts indicated that while it remains to be seen how effective these measures will be over an extended period, these supply chain adjustments were occurring at a faster rate than previously expected. In addition, a contact noted that some automakers and their suppliers are moving planned summer shutdowns forward into June to give supply chains time to repair and thus be in better position for a ramp up in production in the third quarter.

Banking/finance. Credit conditions continued to improve in April and May. Corporate funding costs for a number of large firms in the District decreased, and contacts noted that liquidity in corporate credit markets remains ample. Banking contacts reported a slight increase in business loan demand. Although much of this continued to be refinancing of existing debt, contacts noted that they were starting to see more new commercial and industrial loans in the pipeline. Credit availability, however, remained an issue for some small business borrowers. A

contact noted that larger banks have recently begun to return to small business lending, but that the loan capacity of community banks who have traditionally serviced this segment is still impaired. Outside of banking, conditions in the municipal bond market improved and there was an increase in investment activity by hedge funds, venture capital firms and other forms of private equity.

Prices/costs. Cost pressures increased in April before subsiding some in May. Food and energy prices ended the period mostly lower, as did prices for steel, copper, and other industrial metals. Despite the recent declines, commodity prices remain elevated, and surcharges for fuel, metals, and other commodities increased significantly during the reporting period. Lead times also continued to be longer than normal, and shortages of some raw materials were reported. Pass-through of higher costs to prices further downstream remained moderate. Retailers reported that they were unable to pass along much of the recent increase in wholesale prices; and in many cases, were trying to compensate for the impact of higher food and energy prices on consumer budgets by increasing promotions and discounts. Retail contacts also noted that margins were tight, particularly for grocery stores, and further increases in costs would likely need to be passed along. Wage pressures remained moderate.

Agriculture. Corn and soybean planting lagged the pace of last spring in the District, as excess precipitation and cool temperatures slowed field work. Planting conditions were best in Iowa and Illinois, where planted acres had caught up to five-year averages after a slow start. The emergence of corn and soybean plants was behind normal, except in Iowa. The poor start to the growing season reduces the yield potential of the District corn crop. Even so, there is still the chance of a very large crop. Agricultural commodity markets were choppy during the

reporting period. After peaking earlier this year, corn, soybean, and wheat prices ended down.

Cattle and milk prices edged lower, while hog prices edged up.

Eighth District - St. Louis**Summary**

The economy of the Eighth District has continued to expand at a moderate pace since our previous report. Manufacturing activity has continued to increase since the previous report, while activity in the services sector has declined. Retail sales increased in April and early May over year-earlier levels. Similarly, auto sales increased over the same period. Residential real estate activity has continued to decline, and commercial and industrial real estate market conditions have been mixed. Overall lending at a sample of large District banks saw little change during the first quarter of 2011 compared with the fourth quarter of 2010.

Consumer Spending

Contacts reported that retail sales in April and early May were up, on average, over year-earlier levels. About 48 percent of the retailers reported increases in sales, while 36 percent saw decreases and 16 percent saw no changes. Roughly 41 percent of the retailers noted that sales levels were below their expectations, 35 percent reported that sales met expectations, and 24 percent reported that sales were above expectations. About 32 percent of the retailers noted that their inventories were too high, while 20 percent reported that their inventories were too low. The sales outlook for June and July was mostly optimistic: About 60 percent of the retailers expect sales to increase over 2010 levels, while 24 percent expect sales to decrease and 16 percent expect sales to be similar to last year.

Car dealers in the District reported that sales in April and early May were up, on average, compared with last year's sales. About 58 percent of the car dealers surveyed saw increases in sales, while 29 percent saw decreases and 13 percent saw no changes. About 38 percent of the car dealers noted that used car sales had increased relative to new car sales, while

21 percent reported the opposite. Also, about 29 percent of contacts reported an increase in sales of low-end vehicles relative to high-end vehicles, while less than 4 percent reported the opposite. About 57 percent of the car dealers surveyed reported that their inventories were below desired levels, while 9 percent reported that their inventories were too high. The sales outlook for June and July was generally optimistic: About 58 percent of the car dealers expect sales to increase over 2010 levels.

Manufacturing and Other Business Activity

Manufacturing activity has continued to increase since our previous report. Several manufacturers reported plans to open plants and expand operations in the near future, while a smaller number of contacts reported plans to close plants or reduce operations. Firms in the tire, powder coating, food, paper, packaging, machinery, automobile, and ship manufacturing industries reported plans to expand existing operations and hire new workers. In contrast, a firm in paper manufacturing announced plans to close a plant and lay off employees. Additionally, some automobile manufacturers have reduced their production because of a shortage of parts sourced from Japan.

Activity in the District's services sector has declined since our previous report. Numerous casinos in the District have been forced to temporarily close because of flooding on the Mississippi River. Additionally, contacts in the telephone call center, health care, business support, and support activities for transportation industries reported plans to decrease operations in the District and lay off employees. In contrast, a contact in the nursing care industry announced plans to expand operations and hire new workers.

Real Estate and Construction

Home sales continued to decline throughout most of the Eighth District. Compared with the same period in 2010, April 2011 year-to-date home sales were down 11 percent in Louisville and Memphis and 19 percent in St. Louis and Little Rock. Residential construction also continued to decrease throughout the District. April 2011 year-to-date single-family housing permits decreased in the majority of the District metro areas compared with the same period in 2010. Permits decreased 33 percent in Little Rock, 42 percent in St. Louis, and 25 percent in Memphis and Louisville.

Commercial and industrial real estate market conditions were mixed. Compared with the fourth quarter of 2010, first quarter 2011 suburban office vacancy rates increased in St. Louis, decreased in Little Rock and Louisville, and remained constant in Memphis. The downtown office vacancy rates increased in Louisville and St. Louis, decreased in Memphis, and stayed the same in Little Rock. Industrial vacancy rates decreased for Louisville, Memphis, and St. Louis but increased for Little Rock. Commercial and industrial construction activity remained slow throughout most of the District. Contacts in Little Rock noted that commercial construction has remained fairly weak. Contacts in St. Louis and northwest Arkansas also noted weak commercial construction activity. In contrast, some contacts in southwestern Illinois and Kentucky noted that overall construction has increased recently.

Banking and Finance

A survey of senior loan officers at a sample of large District banks indicates little variation in overall lending activity in the first quarter of 2011 relative to the fourth quarter of 2010. During this period, credit standards for commercial and industrial loans remained unchanged, while demand for these loans ranged from unchanged to moderately stronger. Credit standards for commercial real estate loans were unchanged, while demand ranged from

unchanged to moderately weaker. Meanwhile, credit standards for consumer loans remained unchanged, while demand ranged from about the same to moderately stronger. Credit standards for residential mortgage loans ranged from unchanged to somewhat tighter, while demand ranged from moderately weaker to moderately stronger.

Agriculture and Natural Resources

Heavy rain and flooding on the Mississippi River during April and early May slowed down field work and affected crop conditions in the District. The rates of completion for the planting of corn, cotton, rice, sorghum, and soybeans were behind their 5-year average in most District states; crop emergence was generally behind schedule as well. At least 67 percent of the winter wheat crop was rated in fair or better condition across the District states. Similarly, 88 percent or more of pastures were rated in fair or better condition. Monthly coal production for April 2011 was 2.6 percent lower compared with April 2010.

NINTH DISTRICT--MINNEAPOLIS

Economic activity in the Ninth District grew steadily since the last report. Increased activity was noted in consumer spending, tourism, services, commercial construction, manufacturing, and energy and mining. Residential construction and real estate and agricultural activity decreased, while commercial real estate activity was flat. The job market continued to strengthen moderately since the last report, while wage increases continued to be modest. Significant price increases were noted for wholesale items, but retail price increases were moderate.

Consumer Spending and Tourism

Consumer spending grew moderately. A major Minneapolis-based retailer reported that same-store sales in March and April increased 2 percent compared with a year earlier. Sales and traffic have generally been higher than a year ago at a Montana mall, but were softer in mid-May. Sales and traffic are about even with a year ago at a South Dakota mall, according to the manager; cool weather seems to have slowed apparel sales. An auto dealers association in North Dakota forecasts a 10 percent increase in vehicle sales for 2011.

While spring tourism activity was soft in many areas due to cold and rainy weather, tourism officials were optimistic for the summer season. Based on summer reservation levels, the outlook for Minnesota tourism businesses was upbeat. Spring tourism activity was slow in the Upper Peninsula of Michigan, but inquiries for summer travel options were up, according to an official.

Construction and Real Estate

Commercial construction activity increased in April. The value of commercial building permits in April increased from the same period a year earlier in both the Sioux Falls, S.D., and Fargo,

N.D., areas. A data center in the Minneapolis area plans an expansion due to strong demand. Residential construction decreased from last year. The value of residential building permits in April dropped 27 percent from the same period a year earlier in the Sioux Falls area; in Minneapolis-St. Paul, the value of permits dropped significantly from a year ago.

Commercial real estate markets were steady since the last report. According to industry analysts in the Minneapolis-St. Paul area, office vacancy rates declined slightly, retail vacancy was flat and industrial vacancy rates did not change much. Home sales during mid-May in Minneapolis-St. Paul were down from last year's tax-credit-driven sales, while new listings increased. April home sales in Billings, Mont., also decreased from last year's tax-credit-driven sales, while the number of homes available for sale increased. Meanwhile, the number of homes for sale in both Sioux Falls and Fargo was down from a year ago. The inventory of homes held by lenders in Minneapolis also increased. Multifamily housing vacancy rates declined, and rents increased over the past few months.

Services

Professional business services firms reported increased activity since the last report. Preliminary results of a mid-year business outlook poll by the Minneapolis Fed found that professional services respondents expect to increase sales and profits over the next year after gains during the past 12 months. The survey also revealed that access to bank credit over the past three months has improved, leading businesses to plan expansions and increase capital expenditures. An environmental consulting firm noted a strong increase in orders from the public sector and slight increases from the private sector. Information technology contacts noted an increase in activity over the past two months.

Manufacturing

Manufacturing activity increased since the last report. A May survey of purchasing managers by Creighton University (Omaha, Neb.) showed increases in manufacturing activity in Minnesota, South Dakota and North Dakota. A Sioux Falls manufacturer of electronics and aerospace products is expanding its operations. A bank director reported that manufacturers saw higher productivity and increased their equipment purchases.

Energy and Mining

Activity in the energy and mining sectors increased since the last report. Late-May oil exploration activity increased from early April, and two natural gas processing plants are planned in North Dakota. Wind-energy development projects continued since the last report; however, a \$400 million wind-power project in North Dakota was canceled because of potential threats to endangered birds. Iron ore mines in northern Minnesota are operating at full capacity. A mining company is in the early stages of exploring a potential \$1.5 billion taconite mine and processing plant in northern Wisconsin. Metals prices remained strong, and Montana mines were operating at near capacity. A potential gold/zinc mine in Michigan's Upper Peninsula is under consideration.

Agriculture

District agricultural producers were hampered by continued poor weather conditions. Wet fields kept spring plantings of corn, wheat, soybeans and sugar beets well behind their five-year averages in late-May. Prices for most District agricultural commodities increased since the last report, including corn, wheat, cattle, hogs, eggs and soybeans. Poultry prices were flat, and dairy prices decreased slightly. Of respondents to the Minneapolis Federal Reserve's first quarter (April) Agricultural Credit Conditions Survey, 83 percent reported increased farm

incomes in the previous three months; 57 percent thought incomes would increase in the next three months.

Employment, Wages and Prices

The job market continued to strengthen moderately since the last report. According to the preliminary results of the Minneapolis Fed's mid-year outlook poll, 30 percent expect to increase full-time employment at their firms over the next 12 months, while 22 percent will decrease staff. Some district companies reported difficulty finding workers to fill information technology jobs, certain health care occupations and skilled manufacturing positions. A North Dakota agricultural producer noted a short supply of qualified agricultural implement mechanics and technicians. An online retailer will add 200 jobs in North Dakota. In Minnesota, a communications firm announced plans to hire 450 workers for a new call center, a health care company will hire 100 more employees and a power generation firm will add 90 employees. In contrast, a defense contractor said it will close an operation affecting 100 workers, a meat producer will lay off 90 employees and a health care organization will lay off 70 workers.

Wage increases continued to be modest. According to the preliminary results of the Minneapolis Fed's mid-year outlook poll, 66 percent expect wages to increase 2 percent or less. Two placement agencies in Montana reported that while demand for employment services is up, most wage increases have remained below 3 percent. However, some Minnesota small businesses were facing increased wage pressures for professional and skilled labor, but not for unskilled labor.

Significant price increases were noted for wholesale items, but retail price increases were moderate. Bank directors reported a number of input price increases, including petroleum-based products, some metals, rubber, health insurance and food. Prices of large tires for mining and farm

machinery increased over 50 percent recently. Minnesota gasoline prices were down from recent peaks, but were still over \$1 per gallon more than a year earlier.

TENTH DISTRICT - KANSAS CITY

Growth in the Tenth District economy remained solid in May. Consumer spending grew further, and transportation and high-tech firms reported generally strong activity. The energy industry continued to expand at a robust pace, and agricultural activity was mostly positive with generally favorable growing conditions and rising farmland values. Bankers reported mostly steady loan demand, better loan quality, and rising deposits. Growth in manufacturing activity slowed somewhat but remained modestly expansionary. Residential and commercial real estate activity was generally stable but still slow. Business contacts were mostly optimistic about future sales, and a number of firms reported increased capital spending and hiring plans. Prices rose more slowly, but wage pressures were limited outside of select industries and occupations with labor shortages.

Consumer Spending. Consumer spending continued to grow solidly, and most contacts expected further growth in the months ahead. Retail sales accelerated and nearly all retail contacts reported that sales were above year-ago levels. Sales of apparel and seasonal garden supplies were noted as particularly strong, while a few contacts characterized sales of appliance and some high-end items as weak. Store inventories edged higher, but most stores were satisfied with current stock levels. Auto sales continued to increase, but the pace slowed somewhat from the previous survey. Auto inventories declined further, and several dealers reported additional supply constraints due to the natural disaster in Japan. Restaurant sales were strong, and travel and tourism activity remained favorable. Most restaurant and tourism contacts expected solid activity heading forward.

Manufacturing and Other Business Activity. Growth in District manufacturing activity slowed following rapid growth in recent months, while other business activity expanded further. Factory orders declined after surging earlier in the spring, but factory hiring continued at solid rates and firms remained relatively optimistic about future sales. Growth in transportation activity accelerated from the previous survey, and most firms reported optimism about future sales. The majority of high-tech services firms reported strong growth in sales, though the pace slowed a bit from the previous month. Capital spending plans improved for transportation companies, and high-tech and manufacturing firms also reported fairly solid plans for future expenditures.

Real Estate and Construction. Residential and commercial real estate activity was stable but still generally slow. The decline in housing starts leveled off in May, and new home construction activity was similar to year-ago levels. Expectations for future homebuilding improved from the previous survey, and materials were generally available. Residential construction supply firms reported an uptick in sales, partly driven by demand for storm related items such as roofing and decking materials. Home sales were higher than the previous month but lower than a year ago. Expectations for future home sales were modestly positive, but home inventories climbed higher and home prices continued to edge down in most areas. Mortgage lending activity improved from the previous survey but was well below year-ago levels, particularly for refinancing activity. Commercial real estate activity was mostly flat, though it was slightly stronger than a year ago and contacts had a more positive outlook for future months. Vacancy and absorption rates were steady but expected to improve. Office prices and rents declined and were below year-ago levels in most cities. One contact noted continued obstacles in financing, and another firm said projects have decreased in overall size.

Banking. Bankers reported generally stable loan demand, increased deposits, and improvements in loan quality. Overall loan demand was stable to slightly lower in some cases. Demand for commercial and residential real estate loans was generally unchanged, while demand for commercial and industrial loans and consumer installment loans decreased. Credit standards largely remained unchanged in all major loan categories. Deposits increased for the third straight survey. Bankers reported improvements in loan quality compared to a year ago, and the outlook for loan quality was more favorable. The majority of bankers expected bank employment to remain unchanged over the next year, citing low expected growth, cost constraints, and uncertainty about regulations and government policies as the major reasons restraining hiring plans.

Energy. Energy activity continued to expand strongly in May. Nearly all contacts reported an increase in drilling activity and were optimistic about the months ahead. Crude oil prices remained elevated and favorable for drilling, and natural gas activity rebounded somewhat with a recent uptick in prices. Contacts reported that shortages of equipment and labor continued to somewhat restrain the rate of increase in drilling activity. Several companies have expanded their capital expenditure plans, mainly for projects directed towards drilling and exploration.

Agriculture. Rising farm income spurred record high farmland values and cash rental rates. Crop prices rose further with higher export demand, especially from China. Record pork exports bolstered hog prices, but increased cow slaughter and weaker than usual demand for grilling cuts dampened cattle prices. Many producers used cash rather than debt to pay for higher input costs, and farm equipment sales remained robust. Agricultural growing conditions varied in May. Recent heavy rains held up the start of the winter wheat harvest with early

reports of below-average yields in drought-stricken areas. Despite planting delays due to wet fields, the corn and soybean crops were progressing normally.

Wages and Prices. Price levels generally rose at a slower rate in May, and wage pressures were mostly contained despite solid hiring plans. Manufacturing price increases remained common, but with some slowdown in materials price increases and with fewer firms planning to raise selling prices. Construction supply firms also reported a moderation in selling price increases, but builder input prices were considerably higher than the previous survey. Retail prices increased further and were expected to continue rising in future months. Transportation firms reported an increase in input prices, and restaurants said menu prices were well above year-ago levels. Wage pressures were still contained in most industries. However, some firms reported difficulties finding skilled workers and were forced to raise wages, particularly in information technology fields. Hiring plans have improved for most firms, particularly those in the energy, information technology, health-care, and manufacturing sectors.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy expanded at an accelerated pace over the past six weeks. In particular, energy sector respondents noted increased activity. Sectors that had previously reported weak demand, including accounting, legal and financial services—as well as the construction sector—noted improvement since the last report. Price pressures remain elevated, and more firms expect to add to payrolls in coming months.

Prices Price pressures remain elevated, according to most responding firms in the Eleventh District. Many manufacturers said they had raised prices since the last report, but not enough to offset raw material cost increases, leaving margins squeezed. Several responding firms said price increases were becoming necessary to cover previous upticks in fuel, freight and or raw materials prices. Most construction-related manufacturing firms either planned or had implemented selling price increases; and construction firms expected cost increases to stick, noting producers of construction-related products could no longer absorb higher energy and freight costs. Several service sector companies reported increased ability to raise prices during the past six weeks. Most said the increases were necessary to cover previous increases in fuel, freight and/or raw materials prices. Higher demand for accounting-advisory services has resulted in price increases. Agricultural contacts said crop prices had fallen slightly but remain at relatively high levels. Retailers said prices increased modestly over the past six weeks, and most expected their selling prices to remain elevated due to increases in input prices and transportation costs.

The price of crude oil stayed over \$105 per barrel for much of April before falling back under \$100 in mid-May. Gasoline prices remained elevated during the reporting period due to

concerns about refinery flooding along the Mississippi, according to contacts. Natural gas prices remained low, in a range between \$4.15 to \$4.30 per Mcf. Since the last report, prices increased at a strong pace for many important petrochemical products.

Labor Market Employment levels rose or held steady at most responding firms. There were increased reports of hiring activity compared with the previous reporting period. Most staffing firms noted strong demand at stable levels. Contacts in financial services, auto sales, construction and related materials, and transportation manufacturing reported hiring increases. Some high-tech manufacturers noted an increase in employment for skilled workers. Wage pressures were slightly higher, with increases reported by some accounting and finance firms. Moreover, high-tech respondents noted compensation was increasing due to the return of bonuses that had been temporarily halted during the recession.

Manufacturing Most construction-related manufacturers noted a pick-up in demand since the last report. Some of the uptick was seasonal and expected, but several contacts said that it was difficult to separate out seasonal demand from improved business conditions. Public projects still account for a large share of orders, but contacts said demand had increased because of an acceleration in private projects such as apartment and commercial buildings. The one exception was the lumber industry, where responses mostly reflected weaker conditions over the past six weeks.

Respondents in high-tech manufacturing said sales and orders remain strong overall, but demand was mixed. One source of weakening demand was the ripple effects of the natural disaster in northern Japan as shortages of parts fed into slowdowns in demand for complementary parts. Several respondents noted a broad pickup in consumer demand from India and China and, within the US, an increase in demand for products such as 3-D televisions,

tablets and smart phones. Contacts also reported an increase in orders for semiconductors due to a pickup in demand from the industrial, medical and auto sectors.

Reports from most paper manufacturers reflected stable to improved orders stemming from broad-based economic strengthening. Transportation manufacturing firms said orders were strong and several said demand had risen slightly since the last report. Respondents in the food industry said sales continued to increase at a steady pace over the past six weeks and outlooks remained positive.

Petrochemical firms said supplies were very tight, in part due to restricted capacity caused by unplanned domestic plant outages, as well as reduced production in or near the Japanese earthquake zone. Demand remains strong for most products, and prices are rising. High profits and strong margins for ethylene producers have led to announcements of several new plants and expansions in the Gulf Coast and elsewhere. Refiners reported extremely strong profit margins, and said domestic gasoline inventories were near the bottom of the normal range.

Retail Sales Retail activity increased moderately over the reporting period. Looking at March and April and smoothing out fluctuations due to the Easter holiday, demand has increased in the low- to mid-single digits over the prior year. Some contacts mentioned gasoline prices as a concern but the effects of elevated prices have been limited thus far. Texas continues to perform above the national average, according to one large retailer, and the outlook for 2011 remains positive.

Automobile sales continue to improve, but inventories will likely be thin in coming months due to the effects of the tsunami on Japanese manufacturers supply chains. Contacts expect demand to continue improving at a modest pace throughout 2011.

Non-financial Services Staffing firms reported growth in orders has leveled off or slowed slightly since the last report, although demand remains strong, particularly from the energy, healthcare, insurance and banking sectors. Outlooks are positive, and contacts expect demand to remain stable through year-end. Demand for accounting services increased since the last report, as is typical for this time of year. Improved demand has helped firms raise fees for advisory services. Legal firms noted mostly steady demand, with some strength in corporate, intellectual property litigation, and real estate services.

Reports from transportation services contacts were mostly positive. Intermodal transportation firms noted an increase in cargo volumes during the reporting period. Railroad shipments rose moderately, with particularly strong volume growth in grains, metals, petroleum and chemical products. Container trade volumes declined but were up from year-ago levels. Growth in small parcel shipments accelerated during the reporting period buoyed by demand from the wholesale trade and retail sectors. Airline traffic held steady over the past six weeks. Demand for travel within the US and to Latin America was solid, but load factors for international flights to and from the Pacific region remained weak. Contacts expect modest improvement in airline demand and revenue this year.

Financial Services Financial firms reported steady overall loan demand. Large banks with a national footprint reported some pickup in commercial and industrial loan demand with increased corporate activity, and commercial real estate (CRE) activity has shown recent improvement as well. Regional banks noted that loan demand remains pretty flat, although optimism persists for pockets of homebuilding and some CRE lending across the state. Demand for auto and consumer loans declined. Contacts continue to note that loan pricing remains

aggressive amidst a highly competitive lending landscape. Outlooks are generally positive in light of better outstanding loan quality and continued slow improvement in lending conditions.

Construction and Real Estate Eleventh District housing contacts said sales remain at low levels, but optimism has increased along with better traffic. Sales are expected to improve in the second half of 2011. As reported in previous reports, sales in the higher price points continue to improve. Apartment demand continues to accelerate, and rents have edged up since the last report.

Private nonresidential demand has improved. Leasing activity is growing and there are reports that industrial and office construction are increasing from very low levels. Sales of commercial buildings are also picking up across the District.

Energy Drilling activity is very strong and growing, according to responding firms in the energy industry. A majority of wells being drilled in the United States are directed to oil for the first time since May 1995. Contacts noted Texas is leading the expansion of domestic activity, with strong activity in the Permian basin and Eagle Ford Shale. While the majority of activity is land-based, work is being re-permitted in the Gulf of Mexico, and service firms noted they are moving workers back into the Gulf area. Respondents also noted that international work continues to grow.

Agriculture The entire Eleventh District is experiencing drought conditions, and the severity has progressed considerably. About half of the district is now in exceptional drought, the most severe drought classification, up from zero percent at the last report. The outlook for the wheat crop is poor and it is likely that the cotton harvest will be down from last year. Numerous wildfires have led to an estimated \$20.4 million in agricultural losses.

TWELFTH DISTRICT–SAN FRANCISCO**Summary**

Twelfth District economic activity continued to expand at a moderate pace during the reporting period of late April through the end of May. Price increases for final goods and services remained limited, and upward pressures on wages were subdued on balance. Sales of retail items rose further, while demand for business and consumer services was mixed. District manufacturing activity also was mixed but appeared to expand overall. Agricultural producers reported strong sales, and extraction activity rose for providers of natural resources used for energy production. Activity in District housing markets remained lackluster, while demand for commercial real estate showed signs of improvement. Contacts from financial institutions reported further increases in loan demand.

Wages and Prices

Price inflation was limited for most final goods and services during the reporting period, with the notable exceptions of food and gasoline. Although the prices of a wide range of commodities and raw materials remained elevated, the pass-through to final prices has been limited. For most retail goods and services, tepid demand and robust competition continued to hold down final prices.

Upward wage pressures were quite modest in general. Although hiring activity has picked up, high unemployment and ample labor availability continued to limit the pace of overall compensation gains throughout the District. The primary exception continued to be workers with specialized technical skills, particularly engineers and specialists in information technology, for whom wage gains remained significant in several parts of the District.

Retail Trade and Services

Retail sales rose further on balance. Although consumers' focus on necessities continued, the reports noted a slight shift back toward discretionary spending. Modest improvements in sales were reported for discount chains as well as for traditional department stores, and inventories generally were at or near desired levels given the pace of sales, enabling many retailers to reduce their reliance on promotional activities. For retailers of big-ticket items such as major appliances and furniture, however, sales remained somewhat weak. Similarly, sales were largely flat for grocers. Demand for new automobiles continued to strengthen, although sales growth was restrained somewhat by high fuel prices and shortages of new Japanese-made vehicles associated with the recent natural disaster in that country. The availability of used vehicles tightened further, primarily for imported models, which has propped up their sale prices and trade-in values.

Demand for business and consumer services was mixed. Providers of professional services such as legal and accounting reported little change in activity since the prior reporting period. Sales growth remained strong in the Internet and digital media sectors, and demand for electricity by businesses and households expanded further. Activity waned somewhat for providers of transportation services, with contacts noting a slowdown in cargo traffic at Southern California seaports. Health-care providers noted further moderation in the demand for their services. Travel activity continued to improve in much of the District, reflecting growth in business travel as well as tourism.

Manufacturing

District manufacturing activity posted further net gains during the reporting period of late April through the end of May. Manufacturers of semiconductors and other technology products reported continued growth in new orders and sales as well as high levels of capacity

utilization, with few supply constraints arising from the crisis in Japan. Activity fell slightly for metal fabricators, as demand growth eased in the wake of strong gains in preceding months. Production rates remained solid for makers of commercial aircraft and parts, with modest growth in new orders adding to an existing order backlog. Capacity utilization rates dropped a bit for petroleum refiners, as domestic demand for gasoline stalled in response to elevated prices. Reports from food and beverage manufacturers indicated that demand for their products was largely stable or up somewhat.

Agriculture and Resource-related Industries

Sales of agricultural products were robust, and extraction activity of natural resources used for energy production expanded further. Orders and sales continued to grow for a wide variety of crop and livestock products. However, contacts noted some supply constraints: input costs have risen overall, and unseasonably cold weather delayed the development of some crops in California and the Pacific Northwest. Demand for natural gas continued to expand, propelled in part by cold spring weather, and oil extraction activity grew further in response to rising overseas demand.

Real Estate and Construction

Demand in District residential real estate markets was largely unchanged at very low levels, while conditions improved slightly in commercial real estate markets. The pace of sales for new and existing homes in the District continued to be very weak on net, with distressed properties and entry-level homes reportedly dominating the sales mix in some areas. As a result, new home construction remained moribund and home prices were stable to down. By contrast, conditions continued to be stronger in apartment markets, particularly in the Seattle area: rental rates there reportedly are growing at an annual rate of 10 to 15 percent, spurring

significant increases in construction activity. Vacancy rates for office and industrial space stayed elevated throughout the District, but further improvements in demand were noted for several major markets. This was particularly the case in the San Francisco Bay Area and Seattle, with revived developer interest in new construction reported for the latter area.

Financial Institutions

Reports from District banking contacts indicated that loan demand and overall credit quality rose modestly since the last reporting period. Businesses in some areas have exhibited a slight increase in their willingness to engage in expansionary capital spending, which caused demand for commercial and industrial loans to rise. Demand for consumer credit remained largely stable. Despite improvements in overall credit quality, lending standards remained relatively restrictive for many types of consumer and business loans. However, contacts reported that competition among lenders to extend credit to well-qualified small and medium-sized businesses has continued to intensify, placing downward pressure on rates and fees. Contacts also pointed to continued growth in venture capital financing activity, driven primarily by investments in the Internet and digital media sectors.