For use at 2:00 p.m., E.S.T.
Wednesday
March 3, 2010

Summary of Commentary on ______________________

Current Economic Conditions

By Federal Reserve District

March 2010

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICT

MARCH 2010

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SUMMARY*

Reports from the twelve Federal Reserve Districts indicated that economic conditions continued to expand since the last report, although severe snowstorms in early February held back activity in several Districts. Nine Districts reported that economic activity improved, but in most cases the increases were modest. Overall conditions were described as mixed in the Atlanta and St. Louis Districts, though St. Louis noted further signs of improvement in some areas. Richmond reported that economic activity slackened or remained soft across most sectors, due importantly to especially severe February weather in that region.

Consumer spending improved slightly in many Districts since the last survey, but severe snowstorms in early February limited activity in some Districts. Tourist activity was reported as increased or mixed, with some improvement in hotel occupancies. The demand for services was generally positive across Districts, most notably for health-care and information technology firms. Of the five Districts reporting on transportation, three characterized activity as improved over the previous survey. Manufacturing activity strengthened in most regions, particularly in the high-tech equipment, automobile, and metal industries. Residential real estate markets improved in a number of Districts, although several Districts noted that activity softened or remained weak partly due to extreme winter weather. Most Districts characterized commercial real estate and construction activity as weak or having declined further, but some Districts noted slight stabilization and a few signs of modest improvement. Loan demand remained weak, and lending standards remained tight across the country. Harsh weather continued to negatively

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* Prepared at the Federal Reserve Bank of Kansas City and based on information collected on or before February 22, 2010. 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.

affect agricultural activity, although some Districts reported favorable crop conditions. Districts reporting on energy activity said it continued to strengthen, particularly drilling for natural gas.

Price pressures were mostly limited, with the exception of some increases in raw materials prices. Even with input costs rising, selling prices remained stable due to competitive pressures and limited pricing power. Although some Districts reported an uptick in hiring or a slowdown in layoffs, labor markets generally remained soft throughout the nation, which resulted in minimal wage pressures.

Consumer Spending and Tourism

Consumer spending showed signs of improvement in many Districts since the last report but was hampered in several regions by severe weather conditions in early February. Retail sales improved in the Chicago, Minneapolis, Dallas, and San Francisco Districts, and New York said sales were well above year-ago levels in January and met expectations in February despite inclement weather. Philadelphia also reported that sales were moving up slowly until snowstorms hit in February. Boston and Cleveland characterized sales as mixed but slightly higher overall than year ago levels. Sales were lower than expected in the Atlanta and Kansas City Districts and were down from year-ago levels in the St. Louis District. Several Districts reported that sales were strongest for lower-priced items, while sales of luxury and big ticket items remained sluggish. However, San Francisco noted scattered reports of increased discretionary spending, and Cleveland said some retailers noted a broader, if still slight, increase in demand across a variety of products. Inventories were being managed carefully and held at fairly low levels in most Districts, but Chicago said rising sales were leading retailers to begin rebuilding inventories from low levels.

Auto sales were generally reported as flat or down, with a few Districts again noting that some of the sluggishness was likely due to poor weather conditions. New York, Cleveland, and San Francisco all noted some softening in new auto sales, though New York cited brisk sales of used vehicles. Chicago and Kansas City also reported declining auto sales, while Dallas noted some seasonal softness and Atlanta said sales remained weak. Some Districts reported modest improvement in auto credit conditions. Cleveland noted that many consumers remain reliant on manufacturers' incentives, and auto dealers in the Chicago District blamed part of their recent sales decline on reduced factory incentives.

Districts reporting on tourism said that activity was either rising or mixed since the last survey period. Ski resorts in the Richmond and Kansas City Districts reported at least modest rebounds in activity from year-ago levels, while Minneapolis characterized skier visits to a Montana resort as flat. New York said hotel occupancies in Manhattan were up considerably from a year ago in January and Broadway theatre activity was robust before falling off due to weather in February. Atlanta also reported rising tourism activity related to several successful major sporting events and a well-attended Mardi Gras in New Orleans. San Francisco noted increases in visitors to Hawaii and Las Vegas and said hotel occupancies stabilized in some other areas.

Nonfinancial Services

Nonfinancial services activity was reported as steady or improved by the majority of Districts. Boston, St. Louis, Minneapolis, and San Francisco reported generally solid demand in health-care services, although Minneapolis noted continued weakness in elective procedures. New York indicated that a growing number of service firms planned to increase capital spending in the months ahead, but investment expectations diminished among high-tech companies in the

Kansas City District. Richmond reported that service revenues fell due to the record snowstorms, but a few contacts saw a slight pickup in demand, particularly architectural firms, hospitals, and financial service professionals.

In transportation services, Cleveland, Atlanta, and Kansas City reported an improvement in activity since the last survey, while Dallas said activity was mixed and St. Louis noted large job cuts in the industry. Regional rail loadings were above year-ago levels in the Atlanta District, especially for autos, chemicals, metals, and some construction-related equipment. Intermodal firms in the Dallas District reported no change in cargo volumes, with a rise in exports being offset by a decline in imports. Although shipping volumes increased, Cleveland noted that margins remained depressed due to over-capacity issues, limiting investment in new trucks.

Manufacturing

Manufacturing activity increased further in most Districts, although Minneapolis, Dallas, and San Francisco characterized overall activity as flat or mixed. Philadelphia reported widespread production increases across most industries, and manufacturers in the Cleveland District reported a general rise in capacity utilization. Many Districts reported strong production in metals, and the Boston, Dallas, and San Francisco Districts noted strength in high-tech equipment, particularly semiconductors. Cleveland, Chicago, St. Louis, and Dallas noted solid improvements in auto-related manufacturing. A consumer goods company in the Boston District said European sales were at healthier levels. Contacts in the Chicago District reported strong growth in Asian exports but remained concerned about China's underlying economic strength. Dallas reported that exports for natural-gas based products remained strong, but weak demand for refined products has trimmed margins and cut capacity utilization further. Construction-related activity remained weak in the Chicago and Dallas Districts, and new orders for commercial aircraft and parts were sluggish in the San Francisco District. Philadelphia and Richmond noted productions delays due to the winter snowstorms in February, but some factories were able to make up the losses with longer work hours and extended shifts. Several manufacturers in the Philadelphia District said production gains could be limited due to continued tightening in credit markets and adverse developments in taxes and regulations. Plant managers in a few Districts reported that a large number of customers were simply restocking inventories, leading to concerns about the sustainability of the increase. However, contacts in most Districts remained optimistic for future months, with several reports of planned increases in capital spending.

Real Estate and Construction

Residential real estate markets improved in a number of Districts, remained weak or softened further in the New York, Atlanta, and Chicago Districts, was little changed in the San Francisco District, and characterized as mixed in the St. Louis District. Richmond also reported overall housing activity as mixed, but one contact noted that absent the harsh weather, market conditions might have improved. Adverse weather conditions also hampered home sales and construction in the New York, Philadelphia, and Atlanta Districts. Most Districts attributed stronger home sales to the home-buyer tax credit, with several contacts apprehensive about future sales once the credit expires on April 30. Philadelphia, Cleveland, Kansas City, and Dallas reported that sales were strongest for low-priced and starter homes, while Dallas cited financing difficulties for high-end homes. Home construction was down or stagnant in most Districts, with the exception of the Minneapolis, Kansas City, and Dallas Districts. Atlanta said the most pronounced weakness was among Georgia homebuilders, and San Francisco attributed weak construction activity to elevated home inventory levels. Home prices mostly remained flat or declined slightly, but signs of improvement were noted in the Boston and San Francisco Districts. A real estate agent in a relatively upscale area of the New York District said prices have continued to drift downward but that short sales were relatively rare and most transactions were still above the mortgage balance.

Commercial real estate conditions remained weak or declined further in most Districts, although some Districts noted slight stabilization or modest signs of improvement. Commercial real estate activity weakened in the Richmond, Minneapolis, Kansas City, Dallas, and San Francisco Districts, though Dallas noted that leasing fell at a slower rate and San Francisco cited increased leasing in some segments. Boston and Philadelphia said conditions remain weak, but both noted some improvement in sales of commercial space. New York reported softer activity in the New York City area but some steadying in vacancies and rents elsewhere, while St. Louis said activity remained weak throughout the District. Several Districts also noted that many tenants were pushing for, and in some cases receiving, concessions on rents. All Districts reporting on commercial construction said that activity remained weak or slow, except for some moderate boost from federal stimulus projects and other public construction. Credit for commercial development and transactions was still very difficult to obtain in several Districts, though San Francisco noted a slight improvement in financing availability.

Banking and Finance

Loan demand remained weak across the country. New York, Cleveland, and Kansas City reported decreased demand for most types of loans. Other Districts said loan demand was unchanged but soft. Richmond and Chicago noted that the weak economic outlook was holding back loan demand, and San Francisco said caution about hiring and spending plans was keeping businesses from seeking credit. However, Philadelphia and Richmond reported banks were receiving more inquiries from businesses about loans, and Dallas said contacts were hopeful that loan demand would pick up by the end of the year.

Most Districts indicated that banks remained cautious about lending. New York, St. Louis, and Kansas City reported somewhat tighter credit standards on commercial real estate loans, and New York noted tighter standards for commercial and industrial loans. In other Districts, credit standards were little changed but remained tight. Atlanta reported that banks had ample liquidity but were reluctant to reduce cash reserves. Chicago said a leveling in asset quality was causing large banks to become more interested in lending to prime borrowers, but strained balance sheets were holding back lending by mid-size banks. In the Dallas District, smaller banks reported that regulatory requirements were limiting their ability to expand real estate lending. Loan quality remained a concern but showed signs of stabilizing in some Districts. New York, Dallas, and San Francisco cited further declines in loan quality. In addition, banks in the Philadelphia and Kansas City Districts were reported to be slightly less pessimistic about future loan quality than in the previous survey.

Agriculture and Natural Resources

Harsh winter weather continued to dampen overall agricultural activity, although crop conditions were still generally favorable in most Districts. Minneapolis, Kansas City, and Dallas reported that livestock were stressed by severe weather and that producers provided supplemental feed due to poor grazing conditions. Atlanta commented that cold temperatures caused minor freeze damage to vegetable and citrus crops. Despite below-average temperatures, Kansas City reported the winter wheat crop was in generally good condition. Dallas and San Francisco said that heavy rains and snowfall improved soil moisture for this year’s crop production, though some contacts were concerned that spring planting could be delayed if fields remain too wet. Crop prices edged down following the bumper fall harvest, but Chicago noted that high-quality grain was selling at a premium, due in part to strong export demand. Hog and cattle prices strengthened and dairy prices were flat. Kansas City noted stronger farm incomes from crop production, while agricultural lenders in the Minneapolis District expected farm income and spending to decrease.

Energy activity generally strengthened since the last survey period. Kansas City and Dallas reported increased drilling activity, especially for natural gas, and Cleveland noted increased natural gas-related investment. However, producers in the Kansas City District were concerned that a boost in supply from shale gas production could lower natural gas prices later in the year. Minneapolis reported that oil exploration expanded in February, while oil production was stable in the Atlanta and San Francisco Districts. Coal production in the Cleveland and Kansas City Districts remained below year-ago levels. Minneapolis reported brisk activity in metal mining and continued energy construction.

Employment, Wages, and Prices

The pace of layoffs slowed in most Districts, but hiring plans still remained generally soft. New York cited a slowdown in layoffs at a securities firm and noted a pickup in hiring in what was still characterized as an exceptionally weak legal industry. Staffing firms in the Boston District also saw a strengthening in demand, particularly from the financial and manufacturing sectors. Several manufacturing and construction firms in the Cleveland District began recalling workers, and temporary staffing accelerated in the Richmond, Atlanta, and Chicago Districts. However, Chicago said demand for permanent workers was low, and a manufacturing contact in the Richmond District held back employment due to productivity improvements. Layoffs were also reported at several retail and manufacturing firms in the Dallas District, and Minneapolis said companies in the medical insurance and financial services industries reduced employment. Wage pressures were minimal, but Boston and Cleveland noted a lift in salary freezes and Richmond said wages rose at service and retail businesses.

The majority of Districts reported limited price pressures, although several noted rising input costs due to higher commodities prices. Boston, Cleveland, Chicago, and Dallas noted an increase in metals prices, particularly steel, and Chicago and Kansas City said the upward pressure on some raw materials prices was likely to continue. Lumber prices rose in the Cleveland and Richmond Districts due in large part to weather-related supply issues. On the other hand, San Francisco reported commodity prices were stable or down, with declines in natural gas, copper, and aluminum prices. Some contacts in the Boston District said customers sought fewer price concessions from vendors in order to better ensure reliable deliveries. But nearly all Districts reported limited pricing power, with many firms unable to increase selling prices due to competitive pressure. Retail prices were stable in most Districts, although San Francisco noted heavy discounting. Districts generally expected stable prices overall heading forward.

FIRST DISTRICT – BOSTON

Economic conditions continue to show improvement in the First District. Respondents in the manufacturing, software and IT services, staffing, and residential real estate sectors indicate that demand continues to strengthen, with several manufacturing contacts citing better-than-anticipated increases. Commercial real estate markets remain very weak, but respondents say they may be stabilizing. Recession-imposed hiring and pay freezes are being removed and prices are largely steady.

Retail

Contacted retailers in the First District report mixed sales results for the early months of 2010. Year-over-year same-store sales vary from negative mid single-digits to positive low double-digits. Respondents reporting growth attribute it in part to consumers who continue to seek value-priced products, while contacts with softer sales attribute them in part to recent inclement weather. All retail respondents are cautious in their outlook.

Contacts continue to manage inventory levels carefully, with several retailers reporting decreases from a year earlier. Capital spending remains cautious; a few contacts are considering favorable expansion opportunities and others report plans for store remodels or IT spending. First District retailers tell of increasing headcount in line with new store openings as well as opportunistic hiring of talent. Wages remain mostly steady, although one respondent reports restoring bonuses and merit increases. Vendor and selling prices are said to be stable.

Manufacturing and Related Services

Most manufacturing and related services contacts headquartered in the First District report that demand continued to strengthen in early 2010, in some cases by more than they had anticipated just a few months earlier. Manufacturers of semiconductors and related equipment report sharp snap-backs in orders, resulting in dramatic increases in backlogs, as well as some component shortages and production bottlenecks. An IT equipment maker indicates that demand continues to be strong in the first quarter, resulting in an ample backlog. A food processing firm also says that it is scrambling to meet customer demands for higher volumes and faster deliveries, while at another consumer goods company, European sales in particular are "racing back up" to healthier levels. Biopharmaceutical makers continue to report solid growth in sales. Some other respondents note that their customers remain cautious, but that sales are at least stabilizing after a period of considerable declines.

According to most responding manufacturers, input costs are largely holding steady. Metals prices are the main exception, with some rising and others decreasing. Most contacts are holding selling prices unchanged, except for a few that implemented increases of 2 percent to 3 percent at the beginning of the year. Some respondents note that they or their customers are applying less pressure on vendors to make price concessions as a consequence of a growing emphasis on ensuring reliable deliveries.

Most contacts plan to hold domestic headcounts relatively steady or increase them somewhat in coming months. Only a few firms are planning staffing reductions in 2010. Net hiring is concentrated on scientific, engineering, and other technical occupations. Manufacturers that had implemented pay cuts have now mostly restored wages and salaries to their previous levels. Almost all respondents that had suspended 401(k) plan matches have resumed making matches or expect to do so shortly. 2010 merit pay increases are expected to be in the range of 3 percent to 3.5 percent at most contacted companies.

Most manufacturing respondents are planning to increase capital spending in 2010. Many mention that they will be expanding their capacity to perform R&D or produce new products.

Manufacturers and related services providers describe themselves as either hopeful or optimistic about business conditions over the coming six to 12 months. However, contacts in the semiconductor industry express some concern that sales trends could weaken in the second half of 2010, given the unexpectedly vigorous pace of recovery in recent months.

Software and Information Technology Services

First District contacts in the software and information technology sectors largely report increased activity—ranging from slight upticks to significant growth—through the end of Q4 2009 and into Q1 2010; however, a few respondents caution that business conditions remain fragile and unpredictable. Contacts generally report increased demand across the board, including the financial, medical, and government sectors, although some corporate clients remain hesitant to spend money. One contact also notes that pricing pressure from competitors remains aggressive. While some firms have reduced headcount in recent months, others continue to add personnel; however, salary freezes from 2009 have been lifted, with anticipated merit increases generally in the 3-percent to 5-percent range. The outlook among New England software and IT contacts is more positive than in prior months, with 2010 largely expected to be a growth year. Despite these improved expectations, the possibility of a double-dip recession or a slow recovery remains a major concern.

Staffing Services

The majority of New England staffing contacts report that business continues to strengthen, although a few have experienced stagnant or volatile activity over the past three months. Yearly revenues for 2009 were generally 10 percent to 30 percent below 2008 revenues; however revenues continue to rise over-the-quarter. Labor demand has generally increased across industries, with notable improvements in the financial and manufacturing sectors. Increased activity is also reported in the medical, aerospace, and semiconductor industries. While the demand for direct hires remains depressed, several contacts noted increased conversion of temporary workers to permanent status. Labor supply remains plentiful, although candidate skills do not always meet client demand and an elongation of the hiring cycle persists. The downward pressure on bill rates throughout 2009 has lessened, and some applicants are no longer willing to accept lower pay rates. All First District staffing respondents anticipate improvement during 2010, with most expecting growth for the year to be in the 10-percent to 20-percent range.

Commercial Real Estate

Contacts report modest signs of improvement in commercial real estate markets across the region. In Boston, leasing activity in January and early February, while still light, was up from the preceding quarter as well as year-over-year. However, recent activity has typically involved renewal of existing leases, and renewing tenants, in many cases, gave back space. Net absorption remains slightly negative as increases in vacancy have moderated. Boston's downtown vacancy rate was described as "a soft 16 percent" in the fourth quarter, while the Route-495 corridor is faring much worse, with vacancy rates between 25 and 30 percent. In Boston and Providence alike, renewing tenants have pushed to lock in currently low rental rates over the leasing term. Providence saw a moderate uptick in leasing activity in recent weeks, including activity occasioned by relocation and expansion of health and educational institutions. The class A downtown office market has held up relatively well, with a current vacancy rate of 9.5 percent, while class B downtown office space has a vacancy rate of 15 percent. In Hartford, leasing activity remains "very light" and absorption is still slightly negative, but the retail market has fared better than expected and our contact saw a bit more enthusiasm in the local economy overall in recent weeks.

Sales transactions in greater Boston, also up on a year-over-year basis, remain limited to the highest-quality properties, for which there is brisk demand from investors seeking to add real estate back into their portfolios without taking on excess risk. Investment sales have been "few and far between" in Rhode Island. While contacts report that credit conditions for commercial real estate have eased on a year-over-year basis, they remain watchful of rising commercial defaults both regionally and nationally and expect significant further write-downs of commercial real estate portfolios. A Boston banker reports that his bank's balance sheet remains in excellent shape, however, and that the bank has sought aggressively to make new commercial loans in recent weeks.

One contact remained pessimistic concerning the outlook for the next six to 12 months, and the rest were cautiously optimistic. The caution came from concerns that recent upticks in leasing activity may prove unsustainable, especially if weak job growth (if not job losses) persists; one Boston contact thinks that rents in the city have further to fall.

Residential Real Estate

Home and condo sales continued to show significant year-over-year increases in December 2009, belying concerns that year-over-year declines would recur after the huge sales increases in November that were mainly attributed to the first-time homebuyer tax credit. Part of the continued strength may be due to the extension of the tax credit through April 2010 and expansion of the tax credit to include some existing homebuyers. Contacts report year-over-year home sales increases between 15 percent and 36 percent across the six New England states; condo sales increased between 29 percent and 66 percent year-over-year. January data from the Boston area show these home and condo sales trends continuing into 2010. While foreclosure sales and short sales made up 33 percent of sales in December in Rhode Island, this represents an improvement from 43 percent in December 2008.

Home prices also showed signs of improvement in December. While the median home price declined slightly year-over-year in December in New Hampshire, it increased modestly in Connecticut, Rhode Island, and Maine, and rose more substantially in Massachusetts (11 percent) and the Boston area (20 percent, and then 6 percent in January year-over-year). The median condo price fell year-over-year in December in Rhode Island but increased in Massachusetts, Connecticut, and New Hampshire. The median condo price in the Boston area increased 27 percent year-over-year in January.

Several contacts believe that sales will continue to increase year-over-year for the next few months while the expanded tax credit is still available. A Boston contact reports that traffic at open houses has been steady. Pending sales numbers for Massachusetts were strong in January.

SECOND DISTRICT--NEW YORK

The Second District's economy has shown some further signs of strengthening since the last report, despite some apparent slowing in the housing market; input price increases have become more widespread. In general, business contacts report ongoing improvement in overall conditions and some pickup in hiring activity. Many manufacturing contacts also indicate plans to increase employment and capital spending in the months ahead. General merchandise retailers mostly report that sales were ahead of plan in January, and up from a year earlier, though some report that snowstorms slowed business in February. Auto dealers report mixed but generally sluggish sales results for January and early February, though used car sales remain strong. Tourism activity in New York City has picked up since the last report, though snowstorms in much of the East appear to have crimped activity in early February. Commercial real estate markets have been steady to softer since the last report, while the sales/investment market remains exceptionally weak. Residential real estate markets were mixed to weaker in early 2010. Finally, bankers report weakening in loan demand in all categories, rising delinquency rates—mainly in the household sector—but some leveling off in credit standards on consumer loans and residential mortgages.

Consumer Spending

Retailers report that same-store sales were ahead of plan in January and up 5 to 10 percent from a year earlier, though conditions were more mixed but roughly on plan in the first half of February. General merchandise chains attribute much of the slowing in February to inclement weather; one contact notes that on days and in places with no major weather issues, sales were stronger than expected. One major mall in western New York State reports some softening in business in February, but another reports that business remained strong through mid-month, helped by particularly strong business from Canadian shoppers—particularly on Presidents' Day (Family Day, in Ontario) weekend. Virtually all retailers note that inventories were lean following the holiday season, though some report fairly heavy discounting.

New auto sales have reportedly been steady to softer in early 2010. Auto dealers in the Buffalo area report that sales were exceptionally weak in December and remained sluggish in January, running 20 to 25 percent below a year earlier, though some pickup was reported in February. In contrast, contacts in the Rochester area report that sales ended 2009 on a very strong note, buoyed by incentives, but softened in early 2010, slipping about 10 percent below year-earlier levels. However, used car sales have reportedly been brisk across the board. Auto dealers note modest improvement in credit conditions.

Tourism activity in New York City showed signs of picking up since the last report. Manhattan hotels report that last December was the best on record in terms of the occupancy rate, which rose to 86 percent—up from 82 percent a year earlier. Business remained strong in January and early February, with occupancy rates remaining ahead of comparable 2009 levels by similar margins. This rise occurred despite a roughly 6 percent increase in the number of hotel rooms, indicating a fairly substantial increase in the number of visitors. Room rates have been fairly steady in recent months, after accounting for seasonal variation, but are still down roughly 10 percent from a year earlier. After a relatively sluggish holiday season in 2009, Broadway theaters report a noticeable pickup in business in January—total revenues were up nearly 20 percent from a year earlier, while attendance rose roughly 8 percent. Business tapered off markedly in the first half of February, but this likely reflects heavy snow in many parts of the East. Finally, surveys by both the Conference Board and Siena College indicate that consumer confidence in the region climbed to a roughly two-year high in January.

Construction and Real Estate

Housing markets appear to have softened in early 2010, after hints of a pickup in late 2009. New York City's sales and rental markets both showed signs of slackening since the last report. Rental activity, which had stabilized in December, has reportedly weakened more recently, while asking rents were relatively stable but lower than a year earlier. Co-op and condo transactions, which had picked up in the latter part of 2009, are said to have slipped across the board thus far in 2010, while prices have reportedly continued to drift down. Similarly, northern New Jersey's single-family housing market has reportedly lost momentum in early 2010—particularly for new homes—after showing scattered signs of a pickup in late 2009. However, this may partly reflect unusually harsh winter weather this year in much of the state. Construction of both single- and multi-family homes is moribund, as developers are reportedly holding off on any new development. Still, a real estate agent in a relatively upscale area notes that short sales are not all that common and that most transactions are still above the remaining mortgage balance; however, she notes that prices continue to drift down—especially at the high end, where affordability remains a major factor. The homebuyer tax credit is not much of a factor because it represents a small portion of the typical house price. Buffalo-area Realtors indicate that sales were sluggish in both late 2009 and early 2010, though here, the recent extension of the homebuyer tax credit is expected to spur increased activity in the months ahead.

Commercial real estate markets across most of the District softened since the last report. Vacancy rates in Manhattan continued to climb, while asking rents continued to fall and were down more than 20 percent from a year ago. Vacancy rates also rose noticeably in Westchester and Fairfield counties, while asking rents were down by 6 percent. In most other areas around the District, however, vacancies and rents were relatively stable. Commercial real estate sales remained exceptionally weak across the board.

Other Business Activity

A major NYC employment agency, specializing in office jobs, reports that hiring activity has been sluggish but stable in early 2010, in contrast with the modest pickup that seemed to be taking hold in late 2009; still, conditions are reported to be not as bad as during most of 2009. There has been some pickup in hiring in the legal industry, which had been exceptionally weak. However, there is only scattered hiring in the financial sector, and mostly at smaller firms. Separately, a securities industry contact indicates that the pace of layoffs has slowed to more normal levels, giving greater job security to those still employed; nevertheless, firms are reluctant to hire in many areas due to uncertainty about both the economic and regulatory outlook. Although there has been little activity in mergers and acquisitions or IPOs (initial public offerings), other business lines are described as fairly good. Bonuses at large firms are up from last year's depressed levels but largely restricted (i.e. options or stocks that cannot be sold immediately). There has been some shift in compensation away from bonuses and toward salaries.

Looking at business conditions more generally, both manufacturing and non-manufacturing contacts report continued improvement since the last report. Manufacturing firms in the District note some further improvement in business conditions, along with modest increases in employment. Contacts remain optimistic about the general business outlook and anticipate widespread increases in new orders, as well as increased hiring and capital spending. Non-manufacturing contacts overall report continued modest improvement in business and a slight pickup in employment for the first time since the start of the recession; contacts remain mostly optimistic about the general business outlook and a growing proportion plan to expand capital spending and employment in the months ahead. Both manufacturers and other firms report increasingly widespread rises prices paid but little or no change in selling prices.

Financial Developments

Bankers report decreased demand for all types of loans, particularly in the residential mortgage category, where more than half of those surveyed report weakening demand, compared with just 11 percent reporting a pickup. Bankers also reported decreased demand for refinancing. Respondents indicate further tightening in credit standards in the commercial mortgage and commercial and industrial loan categories but some leveling off in standards on consumer loans and residential mortgages. Still, no banker reported an easing of credit standards in any of the categories.

The spreads of loan rates over costs of funds increased for all loan categories—most notably in the commercial mortgage category. Respondents indicate widespread decreases in average deposit rates. Finally, respondents report continuing increases in delinquency rates for all categories except the commercial and industrial loan category, where rates are reported to have leveled off.

THIRD DISTRICT – PHILADELPHIA

Economic conditions improved in some sectors in the Third District and have been about steady in others since the last Beige Book. Manufacturers, on balance, reported increases in shipments and new orders. Retailers indicated that a rising sales trend was interrupted by snowstorms in February. Motor vehicle dealers indicated that sales have been increasing slightly but were also hampered by snowstorms. Third District banks reported steady loan volume outstanding. Residential real estate agents and home builders said demand for homes has been on the rise, but February snowstorms adversely impacted construction and sales. Nonresidential real estate leasing, purchase, and construction activity continued to be weak. Service-sector firms generally reported steady activity. Business firms in the region indicated that prices of most goods and services have been steady, although there were reports of price increases for metals and some industrial products.

The outlook among Third District business contacts is that business conditions will improve slowly in most sectors in the months ahead. Manufacturers forecast a rise in shipments and orders during the next six months, on balance. Retailers expect sales to expand slowly as overall economic conditions improve. Auto dealers expect sales this year to be slightly above the level achieved last year. Bankers expect only slight increases in lending. Residential real estate contacts expect home sales to be boosted in the short term by the homebuyer credit, but they expect just a slow increase in sales after the expiration of the tax benefit. Contacts in nonresidential real estate expect leasing to advance as landlords reduce rents, but they expect construction to remain soft through most of the year. Service-sector firms generally anticipate slow growth in the near term.

Manufacturing

Third District manufacturers reported increases in shipments and new orders, on balance, from January to February, with the number of firms posting gains exceeding the number recording declines by a fair margin. The improvement was also widespread, as most of the major manufacturing industries in the region posted increases. Comments from manufacturers indicated that their customers are beginning to step up orders after a period of slow activity. One contact said that “for the first time in 16 months there is slight optimism among our customer base,” and another said that “we are ramping up to handle a few large projects.” However, the overall expansion in manufacturing activity since the last Beige Book was constrained somewhat by production interruptions resulting from snowstorms during February.

Third District manufacturers expect business conditions to improve during the next six months, on balance. Among the firms polled in February, about half expect increases in new orders and shipments through the middle of the year; about one-tenth expect decreases. Capital spending plans among area manufacturers have improved since the last Beige Book. About one-third of the firms polled in February plan to increase expenditures for new plant and equipment, although one-half plan to maintain level spending. Despite the general improvement in current and expected conditions in the region’s manufacturing sector, some firms said further gains could be limited by continuing tightness in credit markets and adverse developments in regard to taxes and regulations.

Retail

Third District retailers reported that February snowstorms hampered shopping, offsetting a marginally rising sales trend. As a result, many of the stores contacted for this report said they will likely post month-to-month and year-to-year decreases in sales for February. Retail contacts generally indicated that, except for the snowstorms, sales have been moving up slowly. Most cautioned, however, that a strong growth trend is not imminent. One store executive said sales were “just turning the corner” toward improvement. Looking ahead, Third District retailers generally expect only slow growth in sales for some time. One retailer said, “Sales will be on a plateau until employment picks up.”

Third District auto dealers reported a slight improvement in sales since the last Beige Book, but a negative impact from February snowstorms. Looking ahead, dealers continue to expect total sales for this year to be slightly ahead of last year.

Finance

Total outstanding loan volume at Third District banks has been virtually level since the last Beige Book, according to bankers contacted for this report. On balance, commercial bank lending officers said slight increases in business loans and real estate loans were being offset by decreases in consumer loans. Several banks indicated that loan delinquencies have been about steady in recent weeks, although credit quality remained a concern. One banker said, “Credit quality is holding its own, but we are concerned that some borrowers will not be able to stay current beyond the first quarter.”

Third District bankers see some signs of loan growth ahead. Some reported increased inquiries about business loans. However, in general, bankers in the region expect consumer loan demand to remain soft, and they expect tight credit standards to limit expansion in lending of all types.

Real Estate and Construction

Sales of new and existing homes have picked up somewhat since the last Beige Book. Local real estate agents and home builders said the homebuyer tax credit was providing some impetus to sales, especially in the lower- and moderate-price segments of the market. Some builders have started speculative construction of houses to attract buyers who wish to take advantage of the tax credit before its expiration. However, snowstorms in February interrupted construction as well as sales, according to builders and real estate agents. Real estate agents said the inventory of homes listed for sale remained high, and sales prices have been steady to down across the region. Residential real estate contacts expect sales to rise seasonally in the spring, but several cautioned that sales might decline when the tax credit expires. Looking beyond that date, one agent said, “We are predicting a slow recovery in sales.”

Nonresidential real estate firms indicated that leasing, purchase, and construction activity remained slow, but there have been some slight increases in the sales of commercial buildings in some parts of the region. Contacts reported that vacancy rates have been about steady since the last Beige Book report, but effective rents have continued to decline. Much of the recent leasing activity has been for relatively small blocks of office space, according to agents, who say that tenants are reluctant to commit for large blocks of office space. Contacts reported a slight increase in leasing of industrial space, but they said the demand for retail space has remained weak. Contacts expect nonresidential real estate markets to remain soft through at least mid-2010, by which time improvement is expected in some, but not all markets. A contact in office markets said that “significantly reduced rental rates will be influential” in stimulating leasing activity in office markets, but a contact in industrial markets said that sector will be "tested" in 2010.

Services

Service-sector firms generally reported that activity has been about steady since the last Beige Book. Some indicated a slight strengthening in demand for their services, which some described as only "stabilization" or "an uptick." Some engineering firms noted that they have had increases in demand for work related to energy conservation and efficiency, but other construction-related activity continued to be very weak. The region's service-sector firms expect slow growth, at best, in the near term. One noted that "clients are starting to talk about projects they have had on the shelf, but they're not doing anything yet," and another said, "We continue to be cautious."

Prices

Reports on input costs and output prices have been mixed since the last Beige Book. A number of manufacturing firms noted increases in costs of the commodities they use. Most continued to report that they have not raised the prices of the products they make, although producers of metals and some types of industrial machinery have raised prices. Retailers reported mostly flat selling prices.

FOURTH DISTRICT – CLEVELAND

The economy in the Fourth District continues to show some signs of improvement, although overall activity remains significantly below pre-recession levels. Reports from manufacturers indicated that production was stable or rose moderately and that orders have increased. New home sales improved slightly, while non-residential builders characterized activity in their industry as slow. Financing remains a major issue for residential and commercial contractors. January sales figures from District retailers and auto dealers were mixed. Energy production held steady, and reports showed a small upturn in freight transport volume. Demand by businesses and consumers for new loans remains weak, while the growth rate in core deposits is tapering off.

Labor markets are beginning to show a slight recovery, with some business owners recalling a few workers or increasing production hours. Staffing-firm representatives reported an increased number of job openings, especially in healthcare and, to a lesser degree, in manufacturing. Wage pressures are contained. We heard many reports of rising steel costs, otherwise, raw material and product pricing was generally stable. Capital spending is beginning to rise, but continues below pre-recession levels. Inventories remain under tight control.

Manufacturing. Reports from District factories showed that production was largely stable or rose moderately during the past six weeks, with a majority of our contacts citing an increase in new orders. Most manufacturers told us that production levels have increased on a year-over-year basis, though by varying amounts. In general, our contacts are cautiously optimistic in their outlook. However, several believe that the recent rise in new orders is a result of customers restocking their inventories and may not signal a sustainable increase in production. Steel shipments were in line with expectations, with volume reports showing a gradual improvement. Although no end market is particularly strong, rising volume was attributed primarily to defense and energy. Our steel contacts are hopeful that improving conditions will continue. District auto production showed a small increase during January on a month-over-month basis and a substantial rise when comparing year-over-year data for domestic and foreign nameplates.

Manufacturers reported that inventories are in line with demand, while capacity utilization is beginning to improve. In general, capital investments continue on the low side. Nonetheless, a number of contacts said that they have increased their capital budgets for 2010; others commented that if new orders continue to rise, they are likely to spend more on capital projects later in the year. We heard many reports of increasing steel prices, which were attributed primarily to rising raw material costs. However, there was little response on the part of manufacturers to raise their own prices. Reports indicated that food-related commodity prices have dropped. Half of our respondents said that they have increased the number of work hours or recalled a few production employees, and wage pressures are contained.

Real Estate. In general, new home sales improved slightly during the past six weeks and on a year-over-year basis. Purchases of entry-level homes continue to do well, and several builders reported that the move-up category is gaining momentum. However, builders expressed concern about the potential effect on home sales once the first-time home buyers' tax credit expires on April 30. They also reported that banks remain unwilling to lend money for constructing spec houses, and tight credit standards are keeping many potential buyers out of the market. Our contacts had decidedly mixed reports on the list prices of new homes and discounting. Construction material costs were generally stable, although the price of lumber has started to climb from its recent low. General contractors continue to operate with skeleton crews, but some reported that they are in the process of recalling a few workers. Subcontractors are struggling to keep busy.

Reports characterized activity in non-residential construction, including public works, as slow. Although most of our contacts said that business has fallen on a year-over-year basis and many have nearly depleted their backlogs, inquiries are picking-up slightly. Most projects under way fall within the public works and education categories. Nonetheless, two builders reported a small upturn in industrial construction. About half of our contacts expect activity to remain weak in 2010, while others see a slight improvement when compared to 2009. We continue to hear numerous accounts of difficulties in obtaining project financing. One executive noted that his firm is now financing some of its clients' projects. Increased costs for construction materials were limited to steel, and subcontractor pricing remains very competitive. Employment by general contractors has been largely stable.

Consumer Spending. Reports comparing January retail sales to the previous 30-day period were mixed. However, a majority of our retail contacts said that sales improved slightly on a year-over-year basis. Although consumers continue to focus on buying necessities over discretionary items, several retailers noted that they see a slight pick up across a broad range of products, including housewares and furniture. Almost all of our contacts expect sales to improve somewhat during the next few months. Vendor and store pricing has been relatively stable. Retail inventories continued on the lean side. Auto dealers reported that new-vehicle sales tended toward the down side in January when compared to December. On a year-over-year basis, most new-auto sales figures showed an uptick. Used-vehicle purchases are seen as holding steady. Dealers expect overall sales to show modest improvements at best during the next few months. Auto store inventories were characterized as tight. Some contacts told us that credit and financing have improved a bit during the past few weeks, and that many consumers remain heavily dependent on manufacturers' incentives. Reports show little change in staffing levels at retailers or auto dealers.

Banking. Demand for new business loans remains weak. Bankers experiencing increased volume attributed it mainly to draw-downs on existing lines and roll overs from other banks, rather than new activity. Interest rates and spreads were steady. On the consumer side, conventional loan demand dropped substantially since our last report, with several bankers characterizing demand as very soft. Activity in the residential mortgage market was stable to down and dominated by refinancings. On balance, core deposits continued to grow, but many bankers said that the rate of growth has tapered off. Credit standards remain tight, with many bankers emphasizing that they are actively managing or reviewing their existing loan portfolios and relationships. The credit quality of loan applicants was stable to weaker for consumers and businesses. Reports on delinquencies were mixed, with most increases occurring in real estate portfolios. Outside of some strategic hires and controlled attrition, banks have not appreciably changed their employment levels.

Energy. Little change in oil and gas output was reported during the past six weeks, with drilling activity in 2010 expected to be about equal to 2009. However, natural gas drilling may get a boost from recent investments made in Marcellus shale reserves. Spot prices for oil and gas are stable within a narrow range. Coal production continues to be below 2008 levels due to lower power generation and depressed steel production. Prices for coal were mixed. Capital expenditures by oil and gas producers are tightening, whereas investments by coal producers have been delayed until market conditions improve. Production equipment and material costs remain stable. Employment was steady, and little hiring is expected in the near future. Wage pressures are contained.

Transportation. Freight transport executives reported a slight improvement in shipping volume since our last report. One contact noted that January shipments increased on a year-over-year basis. Margins remain depressed, with several executives commenting that over capacity continues to be the key issue facing the industry. Nonetheless, most contacts we spoke with are cautiously optimistic in their outlook and expect modest improvements in volume during 2010. Apart from fluctuating fuel costs, prices have been relatively stable. Capital spending is expected to increase somewhat on a year-over-year basis, but remain significantly below pre-recession levels. A few contacts noted that they plan to allocate monies for IT equipment. However, spending on new trucks will be limited until capacity utilization improves. Hiring was limited to replacement only. Wage reports were more upbeat: One contact said that he is partially restoring wage cuts made a year ago, while another said he is lifting his firm’s salary freeze.

FIFTH DISTRICT–RICHMOND

Overview. Economic activity slackened or remained soft across most sectors of the Fifth District's economy since our last assessment. However, severe winter storms throughout the District played an important role. Many consumers avoided driving during dangerous road conditions, causing weakness in retail sales (except for items such as food). One banker noted that even borrowers with pre-approved mortgage loans were unable to do much house shopping during the bad weather. Overall, the residential real estate market activity was generally viewed as mixed, although the commercial markets continued to weaken regardless of weather conditions. Tourism was also mixed, with heavy snows in the mountain areas contributing to booming activity at ski resorts, but keeping vacationers away from most other activities. Many manufacturers lost a few days of production during the storms, but were able to make up most of the lost production. Manufacturing shipments and backlogs, however, were largely unchanged over the last month, while new orders improved. Both manufacturing and service employment fell since our last report, although temporary employment agencies reported slight increases in demand, particularly among service-related occupations.

Retail. Retail revenues generally weakened since our last report, although a few merchants reported slightly higher sales. Big-ticket sales dropped sharply, including sales of automobiles and light trucks. Sales fell in many other categories; for example, a department store manager reported that customers were trading down from "label" apparel to the in-house brand. In addition, retail sales fell abruptly during recent major snow storms, although some of our contacts indicated that sales rebounded quickly as customers fought "cabin fever" by shopping when roads were cleared. However, many retailers were unable to recover lost sales and advertising expenses because those snow storms occurred on consecutive weekends. In contrast, District grocery sales rose, and the store manager at a chain discount retailer in North Carolina reported that sales of larger screen televisions were especially strong just prior to the Super Bowl football game and following the snow storms. Several store managers said their outlook for 2010 was more optimistic than in recent months, stating that raises and bonuses were on the table again after last year's freezes. However, merchants remained cautious in their planning, and inventory levels were being managed tightly. Retail wages rose on average, while price increases slowed.

Services. Revenues fell at most District services firms in recent weeks, partly due to snow storms at the end of January and beginning of February. Virginia airports attributed a decline in enplanements to the bad weather, and District hotels and restaurants also reported a drop in customer traffic. In addition, CFO's and other executives at small businesses continued to express frustration at not being able to get loans. Architectural firms in Virginia and Maryland, as well as a few hospitals, reported an increase in consumer demand for services, however. Also, investment advisors and other financial services professionals indicated that revenues picked up in recent weeks, although overall business conditions remained mixed. A financial services contact reported that he was seeing a sense of optimism beginning to develop among his commercial clientele. Average wages inched up at services firms; price increases were mild.

Manufacturing. District manufacturing activity was flat to up in February, with optimism for the near-term remaining guarded. Contacts on balance reported that shipments and backlogs held steady, while new orders posted solid increases. A textile producer said, "Business has definitely turned for the better." His company, however, was using fewer employees due to increased productivity. Similarly, a textile mill manufacturer reported that sales, production and shipments continued to improve and that business was looking good over the next two months. Moreover, a chemical producer noted that his company had seen an increase in all of his business lines and believed that this increase would be sustainable for the next 18 months. In contrast, a primary metal manufacturer indicated an uptick in demand, but was not convinced that the gains would continue because his backlogs had slacked off recently. Likewise, an apparel producer said that sales had increased because retailers were building inventories. He noted, however, that his company was not increasing wages and was reluctant to hire because he believed present demand was a blip and would not last beyond this summer. Several manufacturers reported production disruptions during the snow storms, but were able to make up the losses by working overtime and during holidays. Although most contacts reported that both raw materials and finished goods prices increased at a slower pace since our last report, lumber prices were higher across the board due to weather-related supply effects.

Finance. Lending activity in the District remained soft and little changed from our last assessment, although adverse weather in both January and early February was partly to blame. With businesses closed and home buyers reluctant to drive during the extended period of bad weather, especially in the northern half of the District, banks were getting few customers. Yet, even in areas less affected by weather, several bankers described loan demand as tepid. One large bank reported that commercial and industrial lending remained weak across all market lines. Another banker stated that a modest tightening of credit standards was making loan approvals more difficult. Bankers noted that, while businesses were increasingly calling about loans, few were ready to make loan applications due to the sluggishness of the economy. Nonetheless, one large bank did see a "bit of a thawing" among businesses that needed to replace capital, and a small bank stated that their one area of increased activity was in home equity loans. Most bankers stated that more improvement in the economy and particularly consumer spending would be necessary before loan demand would strengthen appreciably.

Real Estate. Fifth District Realtors reported mixed housing activity across the District, citing weather as a limiting factor in many areas. For example, a Greensboro Realtor noted lower sales since our last report, adding that recent weather conditions had "shut them down." Further, he cited the uncertainty of the economy as a big factor in holding down sales, and said this was the worst market he had ever experienced. Likewise, a Charlotte agent stated that, while house sales slowed in recent weeks, months' supply of inventory was also down markedly. However, a Fredericksburg Realtor reported that, in spite of the adverse weather conditions, sales in her market were equal to a year ago and indicated that, absent the weather, there might have been an improvement in market conditions. Several agents reported that home sales in the lower price ranges continued to benefit from first-time homebuyers, although there was also an increase in foreclosures and short sales. Agents in most localities reported that home prices were either flat or had dropped.

Commercial real estate activity in the District slowed across all segments of the market. Several contacts reported that office, industrial, and retail vacancy rates edged higher, putting more downward pressure on prices and leasing rates. One contact cited an increase in late payments and even defaults. An agent stated that several retail chain stores were having trouble getting financing to sustain their outlet expansion plans. However, local retailers were benefiting from less competition for leasing space in prime locations from national chains. Little or no construction activity was reported in most areas of the District. One exception that was noted included the construction of small industrial buildings such as auto services and parts shops.

Tourism. Tourist activity was mixed, with weather again playing an important role. Contacts along the coast reported weaker bookings and noted that both occupancy and room rates were down considerably when compared to our last report and to a year ago. An analyst on the Outer Banks of North Carolina said that bookings for Valentines' and Presidents' Day weekends were somewhat below a year ago and attributed the weakness to major snowstorms to the north and ongoing concerns regarding the national economy. Looking ahead, however, she noted that rental bookings were up slightly and credited the increase to creative packaging such as throwing in free linens, gas cards and gift certificates to local restaurants. Respondents at ski resorts, however, continued to report that "business is booming," as record-breaking snowfalls resulted in an historically high number of visits. A manager at a ski lodge in Virginia stated that this Presidents' Day weekend had been the busiest in the past five years.

Labor Markets. Labor markets generally softened across major sectors in the Fifth District. Employment and hours at manufacturing firms on average continued to decline over the past month, while retail and service-providing industries reduced hiring but increased hours. Employment was held back, according to one manufacturing contact, by productivity improvements initiated earlier in the recession, and another manufacturer stated that temporary layoffs were continuing due to weak demand. However, temporary employment agents reported somewhat stronger demand during January and February than in previous months. One agent cited a slight increase in demand for contract workers in manufacturing, although construction-related suppliers continued to struggle. Most of the gains in temporary hiring were in service-related occupations, such as finance and other professional services.

SIXTH DISTRICT – ATLANTA

Summary. Reports from business contacts during January and the early part of February painted a mixed picture of economic activity for the Sixth District. While most retail contacts noted a larger than expected post-holiday decrease in traffic and sales, tourism-related spending appeared to have increased as a result of several high profile events. Residential real estate contacts indicated that both new and existing home sales softened, but generally remained above weak levels from a year ago. Commercial contractors continued to describe activity as weak. District manufacturers noted an improvement in new orders and the decline in production slowed. Banking contacts continued to note weakness in loan demand. Overall, businesses reported that labor demand remained subdued. However, temporary help agencies have noted a steady increase in job orders since the beginning of the year. Some manufacturing contacts reported an increase in input prices, but retail contacts suggested that they had very little pricing power.

Consumer Spending and Tourism. Most District retailers indicated that traffic and sales were lower than expected. Merchants reported that they continued to keep inventories at low levels. The outlook among retailers was mixed, with almost half of those contacted noting that they expect an increase in sales over the next few months. Despite the higher sales expectations, retailers did not indicate that they planned to make significant adjustments to inventories. District vehicle sales remained weak in January despite gains reported in some light vehicle segments.

Tourism-related spending strengthened throughout the District. Miami, in particular, experienced strong demand for hotel bookings related to the Pro Bowl and the Super Bowl. Mardi Gras, which took place in mid-February in New Orleans, is estimated to have had the highest number of attendees since 2005. Cruise industry sources noted that onboard spending increased in early 2010. The overall outlook among hospitality contacts improved since the last report.

Real Estate and Construction. According to reports from District homebuilders, new home sales softened somewhat across the region. Weakness was most pronounced among Georgia homebuilders. The majority continued to report that construction activity declined on a year-over-year basis. Most said that unsold home inventory was below year-ago levels, while reports indicated that new home inventory continued to decline on a month-to-month basis as well. The majority of builders continued to note year-over-year declines in home prices, but more than two-thirds of respondents said prices were unchanged from December. Overall, the outlook for home sales improved slightly, while expected construction activity softened a bit.

Reports from Realtors also indicated that existing home sales growth softened during January. Some noted that weather had been a deterrent to sales. Realtors indicated that high-end home sales growth remained weak but continued to improve, while low to mid-priced home sales growth softened. On a year-over-year basis, existing home inventories were mixed; however, reports indicated that unsold inventory increased from December. Most contacts continued to report year-over-year declines in home prices and more than half reported that prices had declined from December. The outlook remains positive but softened somewhat from December.

Commercial construction across the District remained at low levels during the reporting period. Most contractors reported that activity was even with fourth quarter 2009, while a few reported continued weakness. A little more than half said that backlogs were similar to fourth-quarter levels but were below year-ago levels. Most reported that demand for new construction remained very weak. Looking ahead, the majority of contacts anticipate commercial construction activity for the remainder of the year to be largely flat.

Manufacturing and Transportation. Recent reports from Sixth District manufacturers revealed that new orders rose, while the decline in production moderated. Over half of the manufacturers contacted expect production levels to rise in the coming months. With regard to finished inventory, contacts continued to report ongoing reductions.

Transportation contacts reported that freight demand modestly improved in early 2010. Regional rail loadings in January and early February were above year-ago levels, with autos, chemicals, metals, and some construction-related shipments posting noticeable gains.

Banking and Finance. Overall, the level of bank lending continued to contract as credit conditions remained relatively tight. Banks reported having ample liquidity, but remained cautious of reducing cash reserves. Weak loan demand, particularly related to business expansion, continued to be noted by banking contacts throughout the region. Contacts also noted that stricter loan terms have effectively reduced the pool of qualified loan applications.

Employment and Prices. Temporary help agencies continued to report an increase in job orders in January and early February. However, unemployment remains high across the District and job creation remained tepid. Businesses continued to describe attempts to do more with less, such as combining the duties of several jobs into one.

District manufacturing contacts indicated that input prices were up compared with a year ago, citing rising commodity prices as a primary factor. District retailers indicated that they had little pricing power and were wary of trying to pass input price increases through to consumers.

Natural Resources and Agriculture. Crude oil production in the District moderated slightly in January and early February, though output remained above the lows seen in August 2009. Industry contacts noted that refineries in the region continued to scale back processing of distillate fuel oil, helping to deplete historically elevated stocks. Recent wet weather and cold temperatures have negatively affected winter crops in Alabama and Georgia and limited farm work in most areas of the District. Meanwhile, Florida’s farmers reported minor losses of vegetable, sugarcane, and citrus crops as a result of a winter freeze.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District improved at a moderate pace in January and February. Consumer and business spending increased slightly. Manufacturing continued to improve, while construction remained weak. Credit conditions were little changed. Price pressures for most raw materials leveled off, and wage pressures were minimal. Hog and cattle prices rose, while feed costs fell along with corn and soybean prices.

Consumer spending. Consumer spending increased slightly in January and February. Retail sales continued to improve, although contacts indicated that the rate of increase had slowed in recent weeks. Sales of consumer durables and luxury items remained weaker than nondurables and necessities, but a small pick-up in demand for appliances was reported. Rising sales led retailers to begin to rebuild inventories from their very low levels. Contacts expected that this would likely continue through the first half of the year. Auto sales were down from the previous reporting period. Fewer incentives, inclement weather, and the Toyota recall contributed to the decline. Contacts indicated that many Toyota customers had likely held off on purchases given concern over the recall's negative impact on the residual value of their Toyota vehicles. Auto dealers reported that inventories, while still lower than normal, were at comfortable levels.

Business spending. Business spending also increased slightly from the previous reporting period. Contacts indicated that inventories were currently being restocked only as needed to keep up with demand. Several manufacturing contacts questioned the sustainability of any further inventory accumulation, pointing to uncertainty surrounding the economic outlook, volatility of materials prices, and tighter credit as forces keeping inventories lean. Most contacts, however, thought that these factors would at worst only serve to delay the rebuild in manufacturing until the second half of the year. Labor market conditions improved somewhat in January and February with layoffs declining and the workweek increasing. In addition, the demand for temporary workers remained strong with a large staffing firm reporting that billable hours increased substantially, particularly from the manufacturing sector. Permanent hiring continued to be slow, but contacts indicated some improvement in demand in information technology, healthcare, sales, and financial services.

Construction/real estate. Construction activity remained weak in January and February. Residential development was at a standstill, with very few substantial new projects expected to come on-line in the near future. In contrast, interest in investing in existing apartment buildings was indicated to be very strong. Contacts did, however, expect that residential construction would increase some through the spring as developers meet demand stemming from the homebuyer tax credit that expires in April. To do so, most builders are working solely off existing lots given the large inventory of distressed land still available for sale. Demand remained weak for nonresidential construction. The overhang of vacant buildings continued to hold back commercial and industrial construction. Infrastructure construction was the lone bright spot with the federal stimulus bill funding providing some boost.

Manufacturing. Manufacturing activity gradually improved in January and February. Orders increased, primarily reflecting the restocking of inventories. In contrast, contacts noted that order backlogs were declining and customers were hesitant to place new bookings much beyond the first quarter. The auto industry remained a strong source of growth in manufacturing, as did pharmaceuticals. Steady improvement was also noted in steel and heavy machinery, particularly sales of mining and agriculture equipment. Demand from Asia continued to propel export activity; but with growth in the Chinese economy expected to slow, contacts thought export activity would recede some in the near future. Manufacturers with ties to residential or commercial construction were much less positive, and did not expect to see much of a recovery in 2010. However, a contact noted that dealer inventories of heavy equipment had returned to a more normal level and indicated that distributors were being told to prepare for an increase in shipments by a large manufacturer of heavy equipment. This was seen as providing justification for an expected pick-up in manufacturing activity in the second half of the year.

Banking/finance. Reports on credit conditions were little changed from the previous reporting period. Banking contacts reported that business loan demand remained low with utilization of credit lines continuing to decline. Consumer credit conditions, on the other hand, continued to slowly improve with auto lending leading the way. Contacts noted that many of their business and consumer clients were still waiting for the uncertainty surrounding the economic outlook to pass before taking on new debt. Several indicated, however, that with the significant declines in loan volume in recent months, competition for high-credit-quality, high-return customers was beginning to pick up slowly. This was especially true for larger banks where declines in asset quality showed further signs of leveling off in January and February. However, the strained balance sheets of many midsize banks continued to limit the availability of credit. Contacts generally expected that credit availability would increase only slowly in 2010, in line with their expectations for a gradual recovery in economic activity.

Prices/costs. Price pressures for most raw materials flattened out from the previous reporting period. In contrast, upward pressure on prices for industrial metals like steel and copper was expected to continue, as demand outstripped capacity currently on-line. The colder than expected winter led to higher natural gas prices, increasing energy costs. However, contacts indicated that natural gas in storage remained very high and that the current pressure on prices was likely to be temporary. Pass-through of cost pressures to downstream prices was small on balance, as contacts indicated pricing power remained limited in many industries. Wage pressures were reported to be minimal.

Agriculture. News that last fall's corn harvest was a record triggered declines in the price of corn, even though a higher than typical percentage of corn acres remained unharvested. There continued to be problems with the quality of corn in storage, leading to price discounts at delivery. Higher than normal drying costs compressed corn margins, too. In contrast, high quality grain was selling at a premium reflecting in part export demand. With much field preparation work left undone last fall and above normal snows this winter, weather this spring will play a larger role than typical in planting decisions. Hog and cattle prices moved up during the reporting period, although dairy prices flattened out. Feed costs declined with corn and soybean prices, and financial pressures on livestock producers lessened from those experienced during a challenging 2009. Still, contacts reported that refinancing agricultural loans was more difficult than in recent years.

Eighth District - St. Louis

Summary

Economic conditions in the Eighth District were mixed but showed further signs of improvement in some areas. Manufacturing activity, in particular, increased since our previous report. Services activity, in contrast, declined since our previous report. Retail sales were down in January and February over a year ago, while auto sales were about even over the same period. Residential real estate market conditions were mixed while commercial and industrial residential markets remained slow. Overall lending at a sample of large District banks decreased moderately during the fourth quarter of 2009.

Consumer Spending

Contacts reported that retail sales in January and early February were down, on average, over year-earlier levels. About 52 percent of the retailers saw decreases in sales, while 32 percent saw increases and 16 percent saw no changes. About 53 percent of the respondents noted that sales levels met their expectations, 42 percent reported that sales were below expectations, and 5 percent reported that sales were above expectations. Lower-priced items and men's apparel were strong sellers, while higher-priced items moved more slowly. About 64 percent of the contacts noted that inventories were at desired levels, while 20 percent reported too-high inventories and 16 percent reported too-low inventories. The sales outlook among the retailers was mostly positive for March and April. About 54 percent of the retailers expect sales to increase over 2009 levels, while 25 percent expect sales to decrease and 21 percent expect sales to be similar to last year.

Car dealers in the District reported that, compared with last year, sales in January and early February were roughly the same, on average. About 55 percent of the car dealers surveyed saw decreases in sales, while 41 percent saw increases and 4 percent saw no changes. About 32 percent reported an increase in low-end vehicle sales relative to high-end vehicle sales, while 14 percent reported the opposite. About 30 percent reported more acceptances of finance applications, but another 30 percent reported more rejections. About 27 percent of the car dealers surveyed reported that their inventories were too low, while 18 percent reported that their inventories were too high. The sales outlook among the car dealers was generally optimistic for March and April. About 68 percent of the car dealers expect sales to increase over 2009 levels, but 27 percent expect sales to decrease. The remaining 5 percent expect sales to be similar to last year.

Manufacturing and Other Business Activity

Manufacturing activity increased since our previous survey. More contacts reported plans to expand or start new operations and increase employment than contacts who reported that order volumes remain slow and that they have no plans to expand employment. Several firms in auto parts manufacturing reported an increase in new orders and are expanding operations and hiring new employees accordingly. Firms in aerospace products; furniture; cosmetics; and heating, ventilation, and air conditioning manufacturing announced expansion plans. Firms in plastic products and fabricated metal products also announced plans to open new plants in the District and expand employment. In contrast, a smaller number of firms reported that order volumes remain slow and anticipate negative effects on employment. A firm in animal slaughtering and processing announced that it will close its operations, resulting in a large number of job losses.

Employment in the District's service sector contracted since our previous report. Several contacts in business support services announced layoffs. Similarly, firms in transportation/warehousing and medical services announced large job cuts. A firm in the leisure/hospitality business declared bankruptcy, resulting in a large number of seasonal job losses. In contrast, two firms in medical services announced an expansion in their local regions, with new facilities and additional hires.

Real Estate and Construction

Home sales were mixed throughout the Eighth District. Compared with the same period in 2008, December 2009 year-to-date home sales were up 3 percent in Louisville and 1 percent in St. Louis while home sales were down 2 percent in Little Rock and 10 percent in Memphis. Residential construction continued to decline throughout most of the District. December 2009 year-to-date single-family housing permits fell in most District metro areas compared with the same period in 2008. Permits declined 4 percent in Little Rock, 13 percent in St. Louis, 15 percent in Louisville, and 32 percent in Memphis.

Commercial and industrial real estate market conditions remained slow throughout the District. Compared with the third quarter of 2009, fourth-quarter 2009 industrial vacancy rates increased in Little Rock and Louisville but decreased in Memphis and St. Louis. During the same period, the suburban office vacancy rate increased in Louisville but decreased in St. Louis, Memphis, and Little Rock. The downtown office vacancy rate increased in Louisville and Little Rock but remained the same in St. Louis and Memphis. A contact in northeast Arkansas reported that construction is at a standstill with the exception of a large hospital project. A contact in Evansville, IN, noted that major construction projects are lagging and that improvement is not expected for six to twelve months.

Banking and Finance

A survey of senior loan officers at a sample of large District banks showed a moderate decrease in overall lending activity during the fourth quarter of 2008. During this period, credit standards for commercial and industrial loans remained unchanged, while demand for these loans ranged from about the same to moderately stronger. Credit standards for commercial real estate loans were tightened somewhat, while demand for these loans was about the same. Meanwhile, credit standards for consumer loans remained unchanged, while demand ranged from about the same to weaker. Credit standards for residential mortgage loans ranged from unchanged to tightened somewhat, while demand for these loans ranged from about the same to moderately weaker.

Agriculture and Natural Resources

Total production of corn, soybeans, and rice increased from 2008 to 2009 in the District states, while total production of sorghum, winter wheat, cotton, and tobacco decreased. In the District states, the prices of corn, winter wheat, rice, and tobacco decreased from 2008 to 2009 while the price of cotton increased; the prices of soybeans and sorghum were down in most District states. The total value of field crops in District states fell by 7 percent from 2008 to 2009.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew modestly since the last report. Consumer spending, services, energy, mining and residential construction and real estate saw slight increases. Tourism was mixed, while manufacturing and commercial construction were stable. Commercial real estate and agriculture were down. Softness in labor markets continued, but the pace of weakening has slowed. Meanwhile, wages were stable and overall price increases remained subdued.

Consumer Spending and Tourism

Overall consumer spending increased modestly. A Minnesota-based restaurant and bar chain reported that recent same-store sales were above year-earlier levels. A movie theater in Minnesota reported that ticket sales were up during January. In the Minneapolis area, a "value-oriented" mall reported that traffic was up over 5 percent in January compared with a year ago; however, a South Dakota mall reported that traffic was down in January from last year, in large part due to inclement weather. A major Minneapolis-based retailer reported that same-store sales in January were essentially flat compared with a year earlier. A bank director noted that retailers have been willing to take a lower margin on inventory to generate sales activity and cover costs where possible.

A representative of an auto dealers association in Montana observed that recent business at a number of dealerships improved a bit. However, a Minnesota auto dealer noted that sales of new and used vehicles in January were down substantially, but were picking up somewhat during February.

Winter tourism was mixed. A representative of a Minnesota travel agency reported that leisure travel increased considerably in January compared with a year ago. Favorable snow conditions helped boost lodging revenue in northwestern Wisconsin. Recent ski visit numbers were relatively flat at a Montana ski resort, while lodging revenue was down due to fewer guests and discounted pricing. Tourism activity was down somewhat in the Upper Peninsula of Michigan, according to a tourism official.

Construction and Real Estate

Commercial construction was steady at low levels. The value of January nonresidential permits in Rochester, Minn., increased from the same month a year earlier; commercial permits in Fargo, N.D., were down from a year earlier. Meanwhile, a $20 million airport terminal building in Duluth, Minn., was in the early stages of development. Residential construction increased. The value of January residential permits in the Minneapolis-St. Paul area increased 16 percent from a year ago. New residential permits in Sioux Falls, S.D., increased 15 percent in value in January from the previous year, and remodeling activity increased as well.

Commercial real estate continued its slump. Overall vacancy for office, retail and industrial properties in the Minneapolis-St. Paul area reached its highest level in nearly 20 years, even with large decreases in lease prices; the retail sector was particularly hard hit. A commercial real estate firm in South Dakota noted that occupancy was down slightly and businesses were staying with current leases as opposed to expanding. A commercial real estate broker in Fargo said markets there were flat.

The residential real estate market saw continued signs of improvement. The January median sales price in the Minneapolis-St. Paul area increased more than 1 percent from the previous January, the first year-over-year increase in 41 months. Home sales in Bismarck, N.D., and Sioux Falls increased as well.

Services

Overall activity increased in the professional business services sector since the last report. Contacts from information technology firms reported solid orders but noted some difficulties in collecting fees. Web development firms reported improved activity with backlogs ranging from a few weeks to a few months. A contact from a health care firm indicated that demand for core services was solid, while orders for elective procedures were soft. A bank director noted that legal fees were flat to down from a year ago. A Minnesota architectural firm's recent revenue was lower than a year ago.

Manufacturing

Manufacturing output was flat since the last report. A January survey of purchasing managers by Creighton University (Omaha, Neb.) showed that manufacturing activity was relatively level in Minnesota and the Dakotas. An electronic equipment maker in North Dakota reduced production at two plants. A Montana cement maker restarted production after a three-month shutdown. A plastic pipe producer plans to start a plant in South Dakota.

Energy and Mining

Activity in the energy and mining sectors increased since the last report. Mid-February oil exploration increased from mid-December. Wind energy projects are under construction in the western portion of the District. Meanwhile, activity at Montana copper, platinum and gold mines was brisk during the past few months. Permits were issued for a copper and nickel mill processing facility in the Upper Peninsula. January iron ore production was estimated to have increased slightly from December 2009 levels.

Agriculture

Agricultural activity was down. The Minneapolis Fed's fourth-quarter (January) survey of agricultural credit conditions indicated that lenders expect overall agricultural income and spending to decrease in the first quarter. Several winter storms rolled though the District since the last report, causing stress on livestock.

Employment, Wages and Prices

Softness in labor markets continued, but the pace of weakening has slowed. Minnesota unemployment insurance claims were up about 3 percent in January compared with a year earlier; however, increases in unemployment insurance claims have leveled off during the past three months. A medical insurer in Minnesota recently announced plans to lay off 150 employees, while a financial firm announced plans to cut 25 positions in South Dakota. By contrast, a business that processes employee applications in Minnesota will hire an additional 50 employees, and a bank recently announced plans to hire more brokers.

Wage rates remained stable. A Montana bank director noted that most business contacts in his area expect no increases in wages or benefits in 2010.

Overall price increases remained subdued, with some noted exceptions. Bank directors reported price increases in freight and health care costs, and some price hikes in plastics and other petroleum-based products. Meanwhile, construction inputs and bidding prices were down. Some decreases in fertilizer and herbicide prices were expected for the upcoming year. Minnesota gasoline prices were down about 15 cents per gallon in mid-February from mid-January.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy showed further signs of modest growth in January and February. However, some unexpected weakness was noted in several sectors of the District economy due to bad weather. Consumer spending was flat compared to year ago levels with continued softness in auto sales. Manufacturing activity expanded but did not translate into additional factory hiring. Residential real estate markets continued to benefit from tax credits, while commercial real estate weakened further. District banks reported continued weak loan demand. Energy firms expanded drilling activity, especially for natural gas. In agriculture, growing conditions remained favorable for crops, while profit margins improved for livestock producers. Despite higher input prices, retail prices remained unchanged and little evidence of wage pressures was reported in District labor markets.

Consumer Spending. District retailers reported that sales in January and February were weaker than expected and flat relative to last year. Retailers with highly seasonal post-holiday sales noted particular weakness. Some District retailers, especially mall operators, attributed the weakness in sales to winter storms. Retailers nonetheless remained optimistic that a rebound in retail activity will occur in the coming quarter. Light car and truck sales remained in a downward trend but inventories continued to decline and few auto dealers expressed concern with excess inventory levels. The lodging industry noted improved hotel occupancy rates in the January and February survey period. Some hoteliers indicated that the occupancy bounce was likely seasonal in nature but reported improved expectations for both occupancy and room rates. Mountain resort markets registered only a modest rebound in winter tourism relative to year ago activity.

Manufacturing and Other Business Activity. The Tenth District's manufacturing and transportation sectors expanded further, although high-tech firms reported weaker business conditions. District manufacturers reported increased production, shipment volumes, and new orders in the latest survey period. District manufacturing activity has increased steadily since last September and production has returned to near year ago levels. Manufacturers remained optimistic that new orders would be higher in six months; however backlogs were minimal and well below year ago levels. Few manufacturing firms increased hiring, though expectations for future hiring improved markedly in the latest survey period. Transportation firms reported a strong cyclical rebound in business activity consistent with continued stabilization in overall District activity. High-tech firms noted weaker business activity along with subdued expectations for improved business conditions in the coming quarter. Current and future expectations of capital spending activity among high-tech firms also diminished in the survey period. The lack of venture capital funding remained a concern for high-tech companies, especially among alternative energy and software development firms.

Real Estate and Construction. Residential real estate activity improved slightly while commercial real estate continued to deteriorate. Residential builders reported increased building permits and housing starts. Sales in residential real estate increased modestly but home prices in the District remained flat. Demand remained strong for starter homes but the strength was not expected to continue once the homebuyer tax credit expires in April. Upper end home sales remained depressed. Mortgage refinancing activity decreased amid increasing interest rates. Construction supply firms noted increased activity in residential construction but no movement in commercial. Commercial real estate respondents reported anemic conditions, including decreasing sales volumes, rents and prices, and increasing vacancy rates with little to no expectation of conditions improving in the next quarter. Weakness in commercial construction during the survey period was attributed to poor weather in January and February, while tight lending conditions continued to be cited throughout the industry as an impediment to long run growth. Real estate and construction contacts reported limited contribution from stimulus-funded projects to business activity or hiring in the reporting period.

Banking. Bankers reported lower loan demand, unchanged deposits, and a slightly improved outlook for loan quality. Overall loan demand declined at about the same pace as in the previous survey. Demand fell moderately for commercial and industrial loans, commercial real estate loans, and consumer installment loans. Demand for residential real estate loans declined modestly. A few banks tightened credit standards on commercial real estate loans but credit standards for other loan categories were little changed. Somewhat fewer banks than in the previous survey reported a decline in loan quality from a year ago. Respondents were also slightly less pessimistic about loan quality in the next six months. For the second consecutive survey, deposits were unchanged. A few respondents said they had little incentive to obtain deposits due to lack of loan demand.

Energy. Energy industry activity continued to expand in the latest reporting period. Natural gas producers expressed cautious optimism that a near term floor had been established for natural gas prices but remained concerned that expanding supplies from shale gas production would push prices down in the future. District rig counts continued to increase in the latest reporting period with improved expectations for drilling-related capital expenditures in the coming quarter. New drilling activity was largely concentrated in horizontal gas wells in Oklahoma. Wyoming coal production remained more than ten percent below year ago levels.

Agriculture. Agricultural conditions improved since the last survey period. The winter wheat crop was reported in generally good condition with limited reports of freeze damage due to frigid temperatures and variable snow cover. Extreme winter weather contributed to below average weight gain for cattle and caused producers to provide supplemental feed. Cattle and hog prices strengthened in recent weeks, boosting profit opportunities. Crop prices edged down from their post-harvest peaks. Still, cropland values strengthened following the bumper fall harvest. Ranchland values, however, remained below year-ago levels amid weak demand for pasture ground. Stronger farm incomes led to a rise in loan repayment rates and fewer reports of loan renewals and extensions. District contacts reported ample funds were available for farm loans at historically low interest rates.

Wages and Prices. Raw materials prices increased although selling prices and wages remained flat. District manufacturers reported raw materials prices pushed above year ago levels in the latest survey period. Two-thirds of District manufacturers expected the upward trend in raw materials prices to continue into the next six months. Selling prices remained flat across the District since the last survey period but were generally below a year ago. Most respondents expected prices to hold steady over the next few months. Firms continued to report little evidence of wage pressures across District labor markets and did not expect any pressure in the near future.

ELEVENTH DISTRICT—DALLAS

Economic activity improved further in the Eleventh District over the past six weeks. Firms across a wide range of industries continued to report slight increases in demand. However, conditions in a few sectors, notably commercial real estate, financial services and construction-related manufacturing remained weak. Outlooks were generally more upbeat than last time.

Prices Price pressures remained minimal across industries. Most contacts said prices were holding steady, although a few firms noted they were making concessions in order to get business. Raw material prices were mostly stable, but there were reports of an uptick in the cost of fiber and some industrial metals. Most firms that saw an uptick in raw material costs said they were unable to pass on these increases to customers.

Energy prices declined slightly from early January to mid-February. Crude oil prices trended downward from $82 to $79 per barrel. On-highway diesel prices followed suit, falling nearly 10 cents over the same period. Natural gas prices slipped from $6 per thousand cubic feet to near $5, even as colder-than-normal weather trimmed bloated inventories back to near-normal levels. Contacts say that the approaching end of winter is keeping natural gas prices relatively steady. In contrast, prices of chemicals and related products rose during the reporting period.

Labor Market Most respondents noted steady employment levels. Still, there were scattered reports of layoffs at selected retail, high-tech, emergency vehicle and construction-related manufacturing firms. On a positive note, staffing firms continued to report increased hiring activity. In addition, there were reports of an uptick in staff levels at some energy service, food, high-tech and transportation manufacturing firms.

Wage pressures were nonexistent. A few firms reported they either had already given, or planned on giving small pay increases to employees this year. In contrast, real estate contacts noted that people were taking jobs at reduced salaries.

Manufacturing Construction-related manufacturers report that demand continues to bounce along the bottom. There is excess capacity in the industry and margins remain depressed. The outlook is still bleak, especially for manufacturers tied to commercial construction. Fabricated metals producers noted a slight uptick in orders, however, demand remains below year-ago levels.

Reports from transportation manufacturers were mixed. Producers of trailers reported steady demand over the past month, but said that orders were up both from three months and year-ago levels. Emergency vehicle manufacturers noted a cut back in production, and added that the outlook had weakened. An automobile manufacturer reported that sales in Texas are holding up better than in other parts of the country and the outlook is “bright”, with steady growth expected throughout the year.

Reports from the paper industry were mixed. A large corrugated box manufacturer reported a moderate pickup in demand while other contacts, especially those tied to the construction sector, noted continued weakness. Respondents expect 2010 to be stronger than last year. Food manufacturers cited an increase in demand over the past month, and reported a positive sales outlook for the year.

High-tech manufacturers report continued strong growth in orders and production. Demand for semiconductors remains solid, and respondents say they are struggling to keep up with demand. Inventories are at very lean levels, and most contacts expect demand to remain robust over the next three to six months.

Petrochemical demand was mixed. Demand for products tied to domestic manufacturing rose further, while producers that sell to residential and commercial construction said domestic sales remained weak. Export demand is still strong due to the cost advantage of U.S. natural-gas based products over foreign oil-based ones, but producers say that this cost advantage has narrowed in recent weeks.

Depressed demand for refined products has further weakened margins, and contacts say refiners are responding with further cuts in utilization rates. Currently rates are below 80 percent, which excluding weather-related shut-ins, are among the lowest utilization rates over the past twenty-five years.

Retail Retail demand held up relatively well during the reporting period. Contacts say year-over-year sales have improved, however, comparisons are favorable because of the weakness in year-ago numbers. Department store results were slightly better than expected. Consumers remain price conscious. Outlooks are still cautious, and contacts expect only a modest improvement in business this year.

Automobile dealers report seasonal softness in sales over the past six weeks. Inventories remain lean, and contacts expect gradual improvement in sales throughout the year.

Services Staffing firms report continued improvement in demand. Orders are streaming in at a solid pace and billable hours are up. Demand is still largely for contract work, but direct hire placements have recently picked up from low levels. Staffing industry contacts were more upbeat in their outlook compared with the previous reporting period.

Contacts in accounting services say strong demand for tax and audit services is outpacing continued weakness in advisory and performance improvement services. Demand for legal services remains sluggish.

Reports from transportation service firms are mixed. Intermodal firms report no change in cargo volumes over the past month as the rise in exports is being offset by a decline in imports. Contacts in railroad transportation cite a widespread increase in cargo volumes, and noted that the outlook is more upbeat than last time. Airline demand appears to be recovering, with leisure travel seeing continued growth, business travel improving and fares stabilizing. Contacts note that demand for air travel is expected to be flat to slightly up this year.

Construction and Real Estate Housing contacts said new home construction picked up recently in response to relatively tight inventories and the first-time homebuyer tax credit. In both new and existing home markets, sales of lower priced homes remained the strongest. Sales of higher priced homes were weak, reflecting difficulties in obtaining financing for larger loans. Builder outlooks were slightly more optimistic for 2010.

Commercial real estate activity remains depressed. There is continued downward pressure on rents. Office leasing activity is still falling, albeit at a slower pace. Demand for industrial space declined further in Dallas, but improved slightly in Houston. Investment sales transactions remain low due to the tight lending environment, but contacts report that investors are watching closely for bargains. Commercial construction activity is still weak and outlooks remain grim, with most contacts expecting no improvement until 2011.

Financial Services Financial service firms continued to report feeble demand for consumer and commercial loans. Real estate lending remained scarce due to stringent regulatory requirements, and contacts at community banks expressed concern about the possible effects of these regulatory requirements on their ability to expand. Some contacts said they were beginning to see an improvement in loan quality, with falling delinquencies and declining charge-offs. The outlook remained cautious but some contacts were hopeful that they may see a pickup in loan demand by year end.

Energy Drilling activity rose strongly during the reporting period. Gas-directed drilling grew faster than oil-directed activity, reversing the trend seen in prior months. Oil field activity has improved along with the uptick in drilling, and contacts say capacity is beginning to tighten in selected lines of activity and in some geographic areas. Contacts are hopeful that the current expansion will last through the first half of 2010, as their customers continue to drill in order to secure leases, learn the new shale technology or simply because they anticipate being profitable at current prices.

Agriculture Heavy rains and snowfall have boosted crop and pasture conditions. There is excellent subsoil moisture going into the spring planting season, which has improved the crop outlook for 2010. Though heavy precipitation has been beneficial, it has resulted in some crop losses and could delay spring planting if fields do not dry out in time. Livestock are in fair to good condition, and producers are using supplemental feeding to compensate for the harsh winter weather and wet pasture conditions.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District appeared to increase modestly during the reporting period of early January through late February. Upward pressures on prices and wages remained quite limited. Sales of retail items and services generally stayed at low levels, but both showed some improvement. Manufacturing activity was mixed but appeared to pick up further on balance. Sales continued to expand for agricultural producers, while demand for energy resources fell. Home demand appeared to be little changed from the previous period, but demand for commercial real estate continued to slide. Contacts from financial institutions reported that loan demand was largely unchanged and credit standards remained tight.

Wages and Prices

Upward price pressures were very modest on net during the reporting period. Commodity prices were stable or down in general, with declines noted for natural gas, copper, and aluminum. Weak demand continued to hold down prices for various services and most retail items, with extensive discounting reported for the latter. Nearly three-fourths of respondents anticipate that prices for the goods and services sold in their respective industries will remain largely stable during 2010; of the remainder, the number expecting declines was slightly higher than the number expecting increases.

Contacts in most sectors characterized wages as essentially flat, although some businesses reported significant increases in the costs of employee benefits, especially for health insurance. Upward wage pressures were limited by high unemployment and restricted hiring in most sectors and regions. An overwhelming majority of respondents expect no change in their firm’s employment counts for at least the first half of the year, and they expect limited hiring to hold down wage pressures going forward.

Retail Trade and Services

Retail sales continued to firm but remained sluggish on net. Both discount chains and traditional department stores reported sales increases, with scattered reports pointing to a slight pickup in consumers’ appetites for discretionary spending. Sales were characterized as flat for grocers and retailers of furniture, appliances, and electronic items. New automobile sales slipped somewhat, although the reports suggested that consumer interest rose in recent weeks, perhaps signaling improved sales in the near term. For used automobiles, reduced availability held back sales somewhat and caused prices to rise. Unit sales of gasoline were running slightly below their levels from 12 months earlier, despite modest price declines in recent weeks.

Demand for services continued to be weak overall but showed signs of improvement since the last reporting period. Sales remained sluggish for providers of professional and media services, although scattered increases in demand were noted for some categories. Similarly, restaurants and other food-service firms stated that they are slowly seeing signs of recovery in demand. Providers of health-care services reported an increase in patient volumes. Conditions remained challenging for businesses in the tourism and leisure sector, although further signs of improvement were reported: contacts in Southern California and Seattle noted that hotel occupancy rates appear to have stabilized, while contacts in Hawaii and Las Vegas noted ongoing increases in visitor volumes.

Manufacturing

District manufacturing activity remained mixed but picked up further on balance during the reporting period of early January through late February. Demand strengthened further for manufacturers of semiconductors, with high levels of capacity utilization and balanced inventories noted. New orders continued to be very limited for makers of commercial aircraft and parts, but the existing order backlog helped keep production activity at or near the prior pace. Demand and capacity utilization for metal fabricators remained at exceptionally low levels. Manufacturers of wood products also continued to face very weak demand, although a slight pickup was noted. Activity at petroleum refineries remained well below the five-year average levels, prompting refinery closures or sales in some cases.

Agriculture and Resource-related Industries

Sales grew further for agricultural products, but demand declined a bit for extractors of natural resources used for energy production. Sales rose for assorted crops and livestock products, and reports indicated that inputs were readily available. Contacts noted that favorable weather, including substantial moisture, have enhanced production conditions for crops and livestock. Oil extraction activity and capital spending in that industry continued to be held down by weak global demand, while demand for natural gas slid a bit as a result of unseasonably warm weather in some parts of the District.

Real Estate and Construction

Demand for housing appeared to be little changed on net, while demand for commercial real estate slid further. The pace of home sales was mixed across areas but appeared to be largely unchanged after adjusting for normal seasonal variation. Home prices reportedly rose a bit further in some areas of the District. However, the number of available homes for sale remained elevated, which substantially offset builders' incentives to increase the pace of new home construction. Demand slid further for commercial real estate, and tenants continued to push for and often achieve rent concessions and other favorable terms through renegotiation of existing leases. However, one contact noted an increase in leasing activity in some segments of the major markets in the District, as well as slightly improved availability of financing for new commercial development and investment transactions.

Financial Institutions

Reports from District banking contacts indicated that loan demand was largely unchanged from the prior reporting period. Consumer loan demand remained weak on net, and commercial and industrial loan volumes continued at low levels, as business owners remained quite cautious about their capital spending and hiring plans. Lending standards continued to be relatively restrictive for most types of consumer and business loans, and contacts reported further loan losses. Venture capital financing remained a bright spot, with contacts noting further improvements in levels of investment funds and IPO activity.