

For use at 2:00 p.m., E.S.T.
Wednesday
April 14, 2010

Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

April 2010

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

April 2010

TABLE OF CONTENTS

SUMMARY	i
First District—Boston	I-1
Second District—New York	II-1
Third District—Philadelphia	III-1
Fourth District—Cleveland	IV-1
Fifth District—Richmond	V-1
Sixth District—Atlanta	VI-1
Seventh District—Chicago	VII-1
Eighth District—St. Louis	VIII-1
Ninth District—Minneapolis	IX-1
Tenth District—Kansas City	X-1
Eleventh District—Dallas	XI-1
Twelfth District—San Francisco	XII-1

Summary*

Overall economic activity increased somewhat since the last report across all Federal Reserve Districts except St. Louis, which reported “softened” economic conditions. Districts generally reported increases in retail sales and vehicle sales. Tourism spending was up in a number of Districts. Reports on the services sector were generally mixed. Manufacturing activity increased in all Districts except St. Louis, and new orders were up. Many Districts reported increased activity in housing markets from low levels. Commercial real estate market activity remained very weak in most Districts. Activity in the banking and finance sector was mixed in a number of Districts, as loan volumes and credit quality decreased. Agricultural conditions were mixed as well, with positive conditions reported in Districts from the central and western parts of the country, while negative conditions were reported in the mid and southern Atlantic Districts. Mining and energy production and exploration increased for metals, oil and wind.

While labor markets generally remained weak, some hiring activity was evident, particularly for temporary staff. Wage pressures were characterized as minimal or contained. Retail prices generally remained level, but some input prices increased.

Consumer Spending and Tourism

District reports indicated that consumer spending increased during the reporting period. New York and Cleveland reported that recent sales strengthened, while sales rebounded in Richmond and Kansas City. Slight sales gains were reported in Philadelphia. Retail sales in San Francisco continued to improve, but remained somewhat sluggish on net. In St. Louis several new establishments opened, particularly in the food industry. Several Districts described consumers as somewhat more confident. Businesses were cautiously optimistic regarding future sales: Cleveland, Atlanta, Kansas City and Dallas noted that retailers expect sales to improve during the upcoming months. Sales of home furnishings and electronic goods increased in a number of Districts, while seasonal apparel sales were up in New York, Philadelphia and Kansas City. New York and Minneapolis noted that shopping by Canadians was strong at businesses near the border. Atlanta reported that retailers continued to keep inventory levels lower than normal, and retailers in New York reported that inventories are in very good shape.

* Prepared at the Federal Reserve Bank of Minneapolis and based on information collected before April 5, 2010. This document summarizes comments received from business and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Vehicle sales improved in a number of Districts during March. New York, Philadelphia, Atlanta, Chicago, St. Louis, Minneapolis, Dallas and San Francisco noted that auto sales picked up in recent weeks. Cleveland described sales as decent, while sales were steady in Kansas City and mixed in Richmond. Several Districts noted that favorable pricing and credit terms helped lure buyers into showrooms. Dealers in Philadelphia indicated that they expect sales to increase during the next few months.

Tourism conditions also improved during the reporting period. New York, Richmond, Chicago, Minneapolis, Kansas City, Dallas and San Francisco pointed to signs of increased tourism activity. Tourism was described as stable in most parts of the Atlanta District. Hotel occupancy rates were rising in New York, Chicago, Kansas City, and San Francisco. Reports on room rates were mixed: New York and Kansas City noted increases, while Chicago reported rate cuts, particularly at luxury hotels. Managers at mountain resorts in the Richmond District reported that this winter was one of their best ski seasons ever. However, Atlanta noted that corporate bookings remained at very low levels at some high-end resorts.

Nonfinancial Services

Business services were mixed, with some signs of economic recovery. Boston and Minneapolis reported increased activity. Richmond and Dallas were mixed, while San Francisco said demand remained lackluster. St. Louis reported that the sector continued to decline. Advertising and consulting firms in Boston said demand is up substantially from the first quarter of 2009, while an advertising contact in Richmond and professional media services firms in San Francisco characterized sales as flat at low levels. Dallas reported sluggish demand for nontax-related accounting and legal services. Law firms in Minneapolis specializing in debt collections and bankruptcy saw strong demand, while a Richmond property manager noted a large number of repossessions.

Manufacturing

Manufacturing activity increased since the last report across most of the country, with all Districts other than St. Louis reporting increases in orders, shipments, or production. Boston, Cleveland, Chicago, Dallas and San Francisco reported positive results in metals and fabrication. Cleveland, Richmond, Atlanta and Chicago reported increased auto or auto component production. Boston, Richmond, Dallas, and San Francisco saw increased production in electronic, computers or high-technology goods. Chicago and Minneapolis

saw increased production of energy-related products. However, for construction-related goods, Chicago and Dallas reported mixed conditions, Boston reported flat activity and St. Louis reported decreases. Overall, St. Louis saw more plant closures than plant openings.

Banking and Finance

Bank lending activity was mixed by category in most Districts. Atlanta, St. Louis and Kansas City saw weaker loan demand across categories, while activity in San Francisco was flat at low levels and Dallas said that demand appears to be stabilizing. Demand for consumer credit decreased in New York and increased slightly in Philadelphia. Most banks in Cleveland reported weak consumer loan demand, although a few contacts saw a slight increase due to seasonal factors. Business and industrial loan volumes decreased in Philadelphia, Cleveland and Chicago and were flat in New York. San Francisco noted continued modest gains in venture capital funding.

Credit standards remained generally unchanged across the nation, while credit quality was mixed. New York, Cleveland and Kansas City reported tighter lending standards for commercial mortgages. In Atlanta several business contacts reported difficulty getting credit. Dallas and San Francisco said standards continued to be tight. New York saw increased delinquency rates for all categories except consumer loans, which were flat. Philadelphia and Richmond saw little change in credit quality, while Cleveland was mixed. Dallas reported that credit quality was either stabilizing or improving, and appeared to have turned a corner. Chicago noted an improvement in consumer and business loan quality, although credit quality for many small firms continued to decline.

Real Estate and Construction

Residential real estate activity increased, albeit from low levels, in most Districts, with the exceptions of St. Louis, where it was mixed, and San Francisco, where it was flat. Contacts in Philadelphia, Cleveland and Kansas City expressed concern about whether sales would continue to grow after the expiration of the first-time home buyer tax credit. New York, Kansas City, Dallas and San Francisco noted sluggish sales for high-end homes. Home prices were stable across most Districts, but decreased in parts of the New York and Atlanta Districts. Residential construction activity increased slightly in New

York, Atlanta, St. Louis, Minneapolis and Dallas, but remained weak in Cleveland, Chicago and San Francisco.

Commercial real estate activity was slow across the nation. Notable exceptions were Richmond, which saw an uptick in commercial leasing, and Dallas, where the sector was mixed and might be nearing bottom. In Boston, leasing activity consists largely of renewals, with many renewing tenants leasing less space. Manhattan Class A office rents were down 20 percent to 25 percent year over year. Contacts in Philadelphia, Richmond, Kansas City and Dallas expressed concern that lease concessions from landlords were putting downward pressure on rents. Commercial construction continued to be weak in most Districts. Cleveland saw some development in the energy and industrial segments.

Agriculture and Natural Resources

Districts reported mixed results in agriculture. Atlanta reported that cold weather negatively affected crop conditions. Richmond, Kansas City, and Dallas noted that wet conditions delayed planting, though Dallas also commented that current soil moisture levels will be beneficial for the growing season. Chicago expected a normal planting schedule. Minneapolis and San Francisco indicated favorable weather conditions. The calving season is doing well in the Minneapolis District, but Chicago and Minneapolis noted softening dairy output prices.

Activity in the energy and mining sectors increased since the last report. Philadelphia, Atlanta, Minneapolis, Kansas City, Dallas and San Francisco saw increases in oil exploration. Coal production was mixed in the Philadelphia District and increased in the Kansas City District. In the Minneapolis District, more wind energy projects are planned, and mining activity increased.

Employment, Wages, and Prices

While overall labor markets remained weak, some hiring activity was evident, particularly for temporary staff. Employment in the manufacturing and services sectors in Boston remained relatively unchanged, while very little hiring occurred at major legal and financial firms in New York. In the Richmond District, job cuts subsided at retail businesses, and employment was stable at most other services firms. In Kansas City overall employment levels held steady, but more manufacturers and several energy-related firms planned to increase payrolls. Cleveland, Richmond, Atlanta, and Chicago reported strong demand for temporary workers. A pickup in employment was noted in the

manufacturing sector by Cleveland, with little change in staffing for retail, energy, transportation and banking. Atlanta noted that many businesses continued to increase hours worked for existing staff. Minneapolis reported that while labor markets remained weak, some signs of hiring were noted.

Wage pressures were characterized as minimal or contained. In Boston, most firms reported instituting or planning to institute modest wage increases of 2 percent to 3 percent in 2010, while performance bonuses in the services sector were generally down. Richmond reported that average wages edged higher in March in the services sector, but declined slightly in manufacturing. Most companies hiring new workers in the Kansas City District were not offering higher salaries to attract qualified applicants. Dallas reported that just a handful of firms were planning on partially reinstating employer matches to retirement plans or giving small pay increases. In Chicago wage pressures were minimal; however, an increase in health-care costs was noted. San Francisco also reported significant increases in the costs of employee benefits, such as health insurance and pensions.

Retail prices generally remained level, but some input prices increased. Where producers faced cost pressures on inputs, they were largely unable to pass those prices downstream to selling prices, although in Kansas City some manufacturers were considering raising selling prices due to higher raw materials costs. In Boston retail vendor and selling prices were stable. Philadelphia reported that prices of most goods and services have been steady, although there were increased reports of rising prices for basic materials and construction-related products. Apart from rising prices for steel and petroleum-based products in Cleveland, raw materials and product pricing were generally stable. Richmond noted moderate price increases in the manufacturing and services sectors. Chicago reported upward pressure on prices for plywood, industrial metals and petroleum-based fuels. In the Dallas District prices of chemicals and related products rose sharply, primarily due to plant outages. Natural gas prices slipped during the reporting period because of continued high levels of production, low industrial demand and the end of the winter season. Richmond and San Francisco reported increased overseas shipping costs.

FIRST DISTRICT – BOSTON

Business conditions continue to improve in the First District. Contacted retailers cite sales increases, manufacturers say demand continues to grow, and advertising and consulting firms report modest revenue increases. Home prices appear to be improving along with sales in most of the region's residential markets, while commercial real estate appears to be stabilizing although potential defaults remain a concern. Most New England employers are no longer shedding workers, and many are restoring recession-induced cuts in wages and benefits. Both input and selling prices are mostly said to be stable.

Retail

Contacted retailers in the First District report positive sales results for the early months of 2010; year-over-year same-store sales vary from flat to increases of about 20 percent, with "improved sales tone" across the board. Contacts attribute the uptick in sales to strengthening consumer confidence, strong marketing, and having "the right product and the right price." All respondents are cautiously optimistic in their outlook.

Inventory levels are primarily on target, although one contact notes a decrease because of unexpectedly strong sales. Capital spending is more robust than in previous reports, with contacts spending on new store openings, store remodels, IT systems and other technology. Several respondents report slight increases in headcount and the reinstatement of prior wage cuts. Vendor and selling prices are said to be stable, although one contact notes an increase in food-related commodity prices.

Manufacturing and Related Services

Most manufacturing and related services contacts headquartered in the First District continue to report improving demand for their products in the first quarter of 2010. A furniture maker cites sales increases of more than 20 percent in the first quarter of 2010 relative to a year ago, a metals fabrication business reports similarly robust revenue growth, and business is also strong at a local semi-conductor firm. Overall, the manufacturers serving IT, electronics, and business services industries report the greatest increases in demand. By contrast, firms selling machinery and equipment to industrial customers and those supplying real estate-related sectors, especially commercial real estate development, say that business has stabilized or is improving somewhat, but they expect underlying demand to remain relatively sluggish for the rest of the year. In addition, some firms caution that growth in the first half of 2010 appears strong simply because demand in the first half of 2009 was so weak. There has also been a bounce in growth at some firms from one-time inventory corrections.

Input costs for manufacturers are generally unchanged, with the exception of most metals, for which prices are rising. Many companies report that they are holding selling prices steady, although a few have managed (or plan) to implement modest increases this year; they face limited pressure to reduce their selling prices.

The employment situation in the manufacturing sector remains relatively unchanged. Two notable

exceptions are a metals fabrication firm that has increased its workforce about 15 percent relative to a year ago and a large diversified equipment and technology manufacturer that expects to continue layoffs through this year. At most of the remaining firms, hiring in the U.S. is expected to remain relatively flat or increase only slightly for 2010. Manufacturers continue to try to restore wage cuts and/or unfreeze wages. Most firms report instituting or planning to institute modest wage increases of 2 percent to 3 percent this year. Virtually all contacts continue to express concerns regarding rising health care costs.

Most manufacturing respondents report that their planned capital expenditures for 2010 are level with or slightly greater than their expenditures in 2009. Most of the firms' domestic capital expenditures will go toward expanding IT investment and/or their research and development functions. Respondents commenting on financing conditions say they have improved.

Virtually all the contacted manufacturing firms remain cautiously optimistic that business conditions will continue to improve as the year progresses. The consensus, however, is that it may take a while for underlying demand to pick up substantially, and 2010 may turn out to be a transition year.

Selected Business Services

Most First District advertising and consulting contacts report modest quarter-over-quarter increases in revenue in the first quarter of 2010, although some report flat to slightly negative growth. Nonetheless, all agree that demand is up substantially from the first quarter of 2009, with one firm's growth exceeding 30 percent. As some uncertainties about healthcare reform were lifted, for example, consulting demand from the healthcare sector showed a rapid increase, and this strong growth is expected to continue throughout the year. Consulting demand from private equity firms increased slightly as well.

Most respondents made large price cuts in 2009, in the range of 10 percent to 20 percent, with only a few holding their prices steady. Now prices are being raised, but they remain below their pre-recession levels. Regarding compensation; some contacts have kept and plan to keep base salaries steady, while others have raised salaries from 2 percent to 10 percent. Performance bonuses are generally down. Most respondents intend to maintain current staff sizes, with only replacement hiring, but a few firms expect to increase headcounts by 2 percent to 15 percent by the end of the year, and one firm plans to further downsize by 5 percent.

Advertising and consulting contacts generally say they are cautiously optimistic about the rest of the year, as some uncertainties remain. Most respondents forecast a slow recovery for their industry and project annual revenue growth for their firms between 5 percent and 10 percent, although some expect flat growth. They express concern about the availability of credit and the possibility of a double dip.

Commercial Real Estate

Commercial real estate fundamentals in New England have been roughly stable since the last report. In Rhode Island, the uptick in leasing activity seen in January has not been sustained and sales volume remained weak in recent weeks. Nonetheless, our contact notes that vacancy and rental rates in downtown Providence have stabilized. In Boston, leasing activity consists largely of renewals, and

renewing tenants continue to give back significant blocks of space. Boston contacts have not seen sizable rent declines in recent weeks, but downward pressure on rents remains significant and tenants are reportedly bargaining hard for improvements and other concessions. However, owners with weak equity positions cannot secure financing for improvements and therefore cannot effectively compete for tenants. Vacancy rates in greater Boston are roughly flat or up slightly since the last report; apartment vacancy rates in Boston have increased less in the current downturn than have vacancy rates for office and industrial properties. In Hartford, the industrial market is currently the weakest sector, with 1.2 million square feet of vacant space added in the first quarter of 2010; fundamentals for office and retail properties were little changed over the same period. While Hartford's commercial real estate market was described as "stagnant" overall, consumer sentiment in Connecticut was perceived as improving.

In the investment sales market, contacts report growing demand for commercial properties by institutional investors and life insurance companies searching for higher yields. In line with this trend, a commercial real estate lender in Boston has seen significant sales activity for fully-leased, low-risk properties, and his bank has lost bids to other, more aggressive lenders. A local asset management firm recently purchased a prime, mixed-use property in Boston among competition from multiple bidders. At the same time, investor sentiment is reportedly mixed as to whether prices have hit bottom, and significant gaps remain between bidding and asking prices in the riskier segments of the market.

Looking forward, a few contacts express renewed concern about looming commercial mortgage defaults, as operating incomes and debt-service reserves continue to fall and equity in many properties remains weak. Defaults are expected to rise over the next 12 months and possibly beyond. While most contacts expect leasing volume to rise in the later part of 2010, none expect rents to increase significantly in the near term and one sees little upside risk to rents for at least five years, in Boston at least.

Residential Real Estate

Residential real estate markets in New England continued to show mostly positive signs in February. Home sales increased year-over-year in most parts of the region, with 14 percent increases in Maine and Massachusetts. Rhode Island home sales, by contrast, declined slightly year-over-year. Condo sales also increased significantly in Massachusetts and New Hampshire compared to February 2009. Prices also showed signs of stabilization as the median price of homes in February increased modestly year-over-year in Massachusetts, New Hampshire, and Rhode Island, and held steady in Maine. The median condo price in Massachusetts increased 13 percent year-over-year in February.

While Massachusetts contacts are still concerned about low inventory, the 3 percent year-over-year decline in home listings was actually the smallest decrease in 23 months. These contacts hope that sellers will come back to the market as prices rise. Furthermore, the average number of days on market fell sharply across the region. Real estate brokers have been kept busy by the strong demand from buyers encouraged by the tax credit and low prices. Unfortunately, recent flooding in several areas has been a problem for some deals.

SECOND DISTRICT--NEW YORK

The Second District's economy has strengthened noticeably since the last report, though hiring remains sluggish; price pressures have increased moderately but prices at the consumer level remain stable. Manufacturing-sector contacts report improved activity. Auto dealers note some pickup in sales in March, following a lull in February, while general merchandise retailers report improving sales in both months. Tourism activity in New York City has strengthened further since the last report. Commercial real estate markets have been steady to slacker. Residential real estate markets, though still sluggish, have shown scattered signs of improvement, especially at the lower end of the market. Bankers report steady to weaker loan demand, higher delinquency rates (except on consumer loans), and tighter credit standards.

Consumer Spending

Retailers report further strengthening in sales since the last report. Contacts report that general merchandise sales were on or ahead of plan in February and March, with year-over year gains in comparable-store sales running as high as 10 to 13 percent in March. While part of this strength was attributed to the earlier occurrence of Easter this year, most of it was ascribed to underlying strength in demand and rising consumer confidence. One large mall in the Buffalo area also notes strong spending by Canadian shoppers. While the strength in sales is reported to be fairly broad-based, a major retail chain notes particular strength in sales of seasonal apparel and big-ticket goods for the home. Inventories are reported to be in very good shape, and a number of retailers say they are discounting less heavily. Auto dealers report that sales remained sluggish in February but picked up noticeably in March. Credit conditions for car buyers have continued to improve, though floor-plan credit (for dealers) remains tight. Revenues from dealers' service departments are said to be doing relatively well. Contacts are generally optimistic about the outlook for the rest of 2010.

Tourism activity in New York City has continued to strengthen since the last report. Manhattan hotels report that business was relatively brisk in February and that preliminary indications for March

show even more strength: occupancy rates have risen steadily and are estimated to be up 8 percentage points from a year earlier in March, despite an increase in the overall number of hotel rooms. Total revenue per room, which had been down more than 10 percent from a year earlier in late 2009, was estimated to be up 6 percent in March. Similarly, Broadway theaters report a noticeable pickup in business since the last report, following a weather-related lull in early February: March revenues were up 16 percent from a year earlier, while attendance rose 9 percent. Separately, The Conference Board reports that consumer confidence among residents of the Middle Atlantic states (NY, NJ, Pa) slipped in February but rebounded in March, to just below a two year high.

Construction and Real Estate

Housing markets, though still weak, have shown some signs of improvement since the last report—especially at the lower end of the market. A contact that monitors New Jersey’s housing industry notes that single-family building permits, though still sluggish, have picked up in early 2010. New home sales are steady at a depressed level, but resale activity has picked up somewhat. Another real estate contact in northern New Jersey notes that, while sales of homes in the \$500K and up range remain sluggish, more moderately priced homes are selling fairly well, sometimes with multiple offers. There are reported to be relatively few distress sales of late. While prices have stopped declining across much of New Jersey, areas near New York City have seen the pace of decline accelerate somewhat. Realtors across New York State report a pickup in both sales and prices in early 2010, though most of the price increases were upstate. Buffalo-area home sales reportedly picked up in February and March, particularly at the lower end of the price spectrum—partly attributed to the extended homebuyer tax credit. Home prices in the Buffalo area were reported to be up more than 10 percent from a year earlier.

Manhattan’s housing market remains sluggish, though there are signs of stabilization, especially in the rental market. Co-op and condo sales transactions were reported to have doubled in the first quarter from the depressed levels of a year earlier but were still down modestly from the 4th quarter of 2009.

Prices were also down modestly for the quarter and continued to run roughly 20 percent below a year earlier, with milder declines on studio and 1-bedroom apartments but steeper price drops on larger units. Manhattan's apartment rental market showed further signs of stabilizing in March: rents edged up and were down just 1½ percent from a year earlier, though vacancy rates rose modestly.

Commercial real estate markets were steady to softer since the last report. Manhattan's office vacancy rate continued to climb in the first quarter, though at a more subdued pace than in 2009; asking rents for Class A properties continued to run 20-25 percent lower than a year earlier. Still, a contact at a major brokerage firm notes a pickup in leasing activity and sees signs of stabilization in Midtown, though not in Downtown. Looking at the surrounding areas, office vacancy rates continued to drift down in Long Island, were steady in northern New Jersey, but continued to rise in Westchester and Fairfield Counties. Asking rents were down moderately (3 to 6 percent) in these markets. Office vacancy rates in most of upstate New York remain relatively stable—up a bit in the Buffalo and Rochester areas but down modestly in the Albany area. Asking rents are relatively steady in the Buffalo and Albany areas but down 3-8 percent from a year ago in metropolitan Rochester and down more steeply in the Syracuse area. Industrial (factory and warehouse) markets slackened throughout most of the District, with vacancy rates rising and rents falling. A real estate developer in the Buffalo area notes that commercial development and construction are increasingly sparse and that credit remains exceptionally tight.

Other Business Activity

A major New York City employment agency reports that activity picked up slightly in March but remains weak—in part, reflecting the holidays in the final week of the month. There continues to be very little hiring activity from major legal and financial firms. Still, a contact in the securities industry notes that layoffs have largely wound down and that some firms are looking to increase staff in regulatory compliance. Cash bonuses have been slashed for highly compensated employees, but some banks have reportedly raised salaries to offset part of the bonus cuts. More generally, the securities industry is

reported to be faring relatively well, though there is some concern about the outlook: M&A and IPO activity remain dormant, profits generated by the secondary market are not seen continuing this year, and there remains concern about proposed tax and regulatory issues.

Looking at business conditions more generally, contacts outside the manufacturing sector continue to describe conditions as stable or rising modestly. However, manufacturing contacts in the District note improved conditions since the last report. A trucking-industry contact reports some pickup in business in recent months, though conditions remain weak. There are scattered reports of shortages of truck drivers—partly due to more stringent requirements for commercial drivers' licenses.

Financial Developments

Reports on loan demand were mixed across the consumer and commercial loan groups. Bankers indicate decreased demand in the consumer loan and residential mortgage categories, but little change in demand for commercial mortgages and loans. Bankers also reported decreased demand for refinancing. Respondents indicate a tightening of credit standards in all categories, most notably in the commercial mortgage category. Bankers report no change in the spreads of loan rates over costs of funds, except in the commercial mortgage category, where they report an increase. Respondents indicate widespread decreases in average deposit rates. Finally, respondents note increased delinquency rates for all categories except consumer loans, where they reported no change.

THIRD DISTRICT – PHILADELPHIA

Economic activity moved up somewhat in the Third District since the last Beige Book, on balance, although the advance did not include all sectors. Manufacturers, on balance, reported increases in shipments and new orders. Retailers generally posted gains from February to March. Motor vehicle dealers indicated that sales increased. Third District banks reported steady to slightly decreased loan volume outstanding. Residential real estate agents and homebuilders said home sales increased from February to March. Nonresidential real estate leasing and construction activity continued to be weak, but contacts reported some increase in purchase and investment activity. Business firms in the region indicated that prices of most goods and services have been steady, although there were increased reports of rising prices for basic materials and construction-related products.

The outlook among Third District business contacts is that business activity will continue to move up 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 modestly as consumer confidence is slowly restored. Auto dealers expect the sales rate to remain above last year's pace. Bankers expect slight increases in lending. Residential real estate contacts expect home sales to rise somewhat during the balance of the year, but they are unsure of the immediate trend after the expiration of the federal tax credit for homebuyers. Contacts in nonresidential real estate expect leasing to advance slightly as tenants take advantage of concessions and lower rents, but they do not expect much growth in demand for commercial space until firms begin to add workers in substantial numbers.

Manufacturing

Third District manufacturers reported increases in shipments and new orders in March, on balance, although the number of firms recording gains was not as large as it was in February. However, most of the major manufacturing industries in the region posted net increases. In general, manufacturers indicated that demand for their products was picking up slowly. One said, "Business is better than a year ago, but not exciting," and another said, "There is a slow, steady gain."

Third District manufacturers who were queried in March expect business conditions to improve during the next six months, on balance, and the level of optimism has been practically unchanged from last month. Among the firms surveyed in March, about half expect increases in new orders and shipments; about one-tenth expect decreases. Capital spending plans among area manufacturers remain positive, on balance, but have weakened since the last Beige Book. About one-fifth of the firms polled in March plan to increase expenditures for new plant and equipment, although two-thirds plan to maintain level spending.

Retail

Third District retailers reported slight gains in sales in March compared with February and with March of last year. They generally indicated that spring apparel sales were moving up in line with expectations. Some retailers also noted that sales of housewares and home furnishings had risen recently, and one store executive said this increase “shows consumers are more willing to spend, although they are still being cautious.” Looking ahead, Third District retailers expect modest year-over-year increases in sales for the spring season, although they point out that the gain will be from a low sales level a year ago.

Third District auto dealers reported an improved pace of sales in March compared with February. They said inventories remained well under control. Dealers expect sales to continue to move up through the spring, and they also anticipate that some domestic franchises that had been discontinued will be restored in the months ahead. In general, dealers are maintaining their expectations that total sales for this year will be slightly ahead of last year.

Finance

Total outstanding loan volume at most of the Third District banks contacted for this report has been level or has declined slightly since the last Beige Book. On balance, commercial bank lending officers said there has been a small increase in consumer lending, although some bankers noted an increase in paydowns and payoffs. Bankers generally reported declines in most other credit categories. Most of the surveyed banks indicated that credit quality measures showed little change since the last Beige Book.

Looking ahead, Third District bankers expect some growth in lending. They expect gains in consumer lending and lending to businesses. Several bankers indicated they plan to step up

business lending, but only to borrowers “with a sound income stream,” as one contact said. Some bankers also said they expected commercial real estate lending and lending for construction to begin to rise. Bankers noted that commercial real estate funding by both banks and nonbank financial institutions was starting to become more available.

Real Estate and Construction

Sales of new and existing homes picked up somewhat in March after falling in February. Sales continued to be stronger in the lower- and moderate-price segments of the market for both new and existing homes. Real estate agents said the inventory of homes listed for sale remained elevated, and sales prices have been steady or declining across the region. Local real estate agents and homebuilders said it was difficult to determine whether the recent increase in sales was the result of buyers signing contracts to take advantage of the federal tax credit before its April expiration or whether the upturn reflected a more fundamental seasonal increase. However, the general view among Third District real estate contacts is that any improvement in home sales during the rest of the year will be modest. As one contact commented, “We have hit the bottom, but now people are only going to buy if they need to.”

Nonresidential real estate firms indicated that leasing and construction activity remained slow. Contacts reported that vacancy rates have been about steady for most types of commercial property since the last Beige Book, although vacancy rates for some retail centers have risen. Effective rents continued to be under downward pressure as landlords make concessions to keep existing tenants and attract new ones. Contacts expect nonresidential real estate markets to remain weak as long as tenants are unwilling to expand. One contact said, “The office market will suffer until employment returns to more normal levels.” However, some contacts said they believe investor interest in purchasing or financing commercial property was beginning to increase because expected returns to real estate investment appeared to be rising relative to other investment classes. Additionally, some contacts noted that the decline in property values in the past year has prompted some tenants to purchase the buildings they occupy.

Prices

Reports on input costs and output prices have been mixed since the last Beige Book. Around one-third of the manufacturing firms polled in March noted increases in the costs of the

commodities they use, and around two-thirds reported steady input costs. Most continued to report that they have not raised the prices of the products they make, although some producers of food products and metals have raised prices. Construction firms noted recent increases in the costs of lumber, drywall, metal products, oil-based products, and some glass products. Retailers reported mostly flat selling prices.

FOURTH DISTRICT – CLEVELAND

The economy in the Fourth District showed further signs of strengthening since our last report. Manufacturers told us that the rise in production which began late last year continued, although orders remain below pre-recession levels. Contacts in non-residential construction noted some signs of renewed growth, but they are concerned about its sustainability. Financing remains a major issue for residential and commercial contractors. Sales figures from District retailers and auto dealers showed a moderate improvement. Energy production was mixed and reports indicate a continuing upturn in freight transport volume. Demand by businesses and consumers for new loans remains weak, although some bankers noted that the lending environment is starting to grow more competitive.

A pickup in employment was notable in the manufacturing sector, where businesses are recalling some workers and increasing production hours. A majority of staffing-firm representatives indicated that new job openings increased, primarily in healthcare. Wage pressures continue to be contained. Apart from rising prices for steel and petroleum-based products, raw materials and product pricing was generally stable.

Manufacturing. Reports from District factories showed that production was largely stable or rose slightly during the past six weeks, with a few of our contacts citing an increase in their backlogs. Most manufacturers told us that production levels have increased on a year-over-year basis, though by varying amounts. In general, our respondents are cautiously optimistic and expect their sales to increase at a modest rate going into summer, but they are not expecting a return to pre-recession levels through the end of the year. Steel shipments were better than anticipated, with rising volume being driven primarily by autos, energy, and heavy equipment. Looking forward, many of our steel contacts said that they are uncertain if the rise in volume is sustainable in the long-term. Nonetheless, they expect shipping volume during the next few months to at least approach levels seen in the first quarter. District auto production was stable in February on a month-over-month basis, and showed a substantial rise when comparing year-over-year data for both domestic and foreign nameplates.

Reports on inventories were mixed. Half of our contacts said that product supplies are low relative to demand, while others reported that their inventories remain well balanced. Capacity utilization continued a slow upward trend. Capital outlays are on target, with monies being allocated primarily for maintenance projects, new equipment, or IT upgrades. Manufacturers said that outlays will remain below pre-recession levels until a robust recovery is underway. We heard many reports of increasing steel prices, which were attributed primarily to rising raw materials (iron ore, scrap, and alloys) costs. There was little response on the part of

manufacturers to raise their own prices because of relatively weak market conditions. However, some of our respondents are beginning to initiate materials surcharges. We heard numerous reports of recalling laid-off workers and increased work hours, while new hiring was limited to temporaries. 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. Nonetheless, some builders are struggling to close sales. Purchases of entry-level homes continue to do well, and several contacts told us that the move-up category is gaining momentum. Builders expressed concern about the potential effect on home sales when the first-time home buyers' tax credit expires and the downward pressure on home prices, which they attributed to unreliable appraisals. They also reported that banks remain unwilling to lend money for constructing spec houses or buying land. Homebuilders are not anticipating a big turnaround in the housing market, and they expect total sales volume in 2010 will equal or be slightly greater than last year's volume. Little change was noted in the list prices of new homes, construction material costs, and subcontractor pricing. General contractors and subcontractors continue to operate with skeleton crews.

Activity in non-residential construction showed early signs of a pickup. Inquiries have improved, and many contractors said that they are beginning to rebuild their backlogs. Most projects currently under-way fall within the industrial and energy categories. Half of our contacts are uncertain about the level of construction activity for the remainder of 2010, while others see a small improvement when compared to 2009. We continue to hear accounts of difficulties in obtaining project financing, even for credit-worthy borrowers. Increased costs for construction materials were limited to steel and petroleum-based products. General contractors reported that other than seasonal hiring, their employment levels have been flat. Subcontractors are still struggling, with many of them taking on projects at cost.

Consumer Spending. For the period from mid-February through mid-March, retail sales were generally stronger when compared to the previous 30-day period and were up on a year-over-year basis. Although consumers continue to focus on buying necessities over discretionary items, retailers noted that they see a pickup in the sales of home furnishings. Looking forward, retailers are cautiously optimistic, and most expect sales to improve somewhat during the second quarter. Vendor and store pricing has been relatively stable. Retailers commented that they are placing less emphasis on promotions and markdowns, and store inventories continued on the lean side. Auto dealers characterized new vehicle sales from mid-February through mid-March as decent, with little change when compared to year-ago sales. Used-vehicle purchases are holding steady. Overall, sales are expected to show a modest improvement at best during the second quarter. Dealer inventory positions have improved since our last report, though a few dealers

still characterize it as light. Several contacts told us that buyer credit is beginning to loosen, as community banks and credit unions are becoming more aggressive. Reports show little change in staffing levels at retailers or auto dealers.

Banking. Demand for new business loans remains weak, although a few bankers noted that they are beginning to see their pipelines become more active. Interest rates were steady. Some of our respondents also commented that the lending environment is growing more competitive. On the consumer side, loan demand was mixed. While several bankers said that demand was very weak, others are seeing a slight increase, which they attributed to seasonal factors and draw-downs on HELOCs. The residential mortgage market is stable, with most activity dominated by refinancings. Core deposits continued to show strong growth at most banks. Interest spreads are widening due primarily to term deposit repricing. Credit standards have not changed appreciably in the past six weeks, though commercial real estate lending is receiving closer scrutiny. Reports on the credit quality of loan applicants were mixed. Almost all of our respondents told us that delinquencies have stabilized or declined. Employment growth at banks was limited to some strategic hires.

Energy. Little change in oil and natural gas output was reported during the past six weeks, with only a slight increase expected during the second quarter. Spot prices for natural gas are on the decline, while oil prices are fluctuating within a narrow range. We heard mixed reports on coal production. One producer noted that demand from off-shore customers for metallurgical coal has increased significantly and that his company is reopening one of its idled mines. Prices for coal were mixed but tended to the upside. In general, capital expenditures showed a modest improvement. Production equipment and materials costs were flat, although we heard some reports that the rise in steel prices is making its way down the supply chain. Employment was steady, and little hiring is expected in the near future. Wage pressures are contained.

Transportation. Freight transport executives reported that shipping volume continues to show a gradual improvement, and they expect this trend to persist for the remainder of the year. However, profit margins remain constrained due primarily to overcapacity and rising fuel costs, which have to be absorbed into the current rate structure. Apart from fuel prices, operating costs have been relatively stable, although there is some concern about rising costs associated with regulatory compliance. Equipment purchases remain at low levels, with little change expected until there is a substantial pickup in shipping volume. Hiring was limited to replacement only.

FIFTH DISTRICT–RICHMOND

Overview. Economic activity improved across the Fifth District since our last assessment. Retail sales improved, despite weak sales of big-ticket items. Manufacturing activity continued to advance, as evidenced by further increases in shipments and orders. House sales showed some improvement, although prices continued to edge downward, and commercial leasing also experienced a slight uptick over the last six weeks. Tourist activity improved, with bookings showing moderate strength at both mountain and coastal resorts. While activity in both the service and banking sectors remained mixed, positive reports were more prevalent than in our last assessment. Labor markets were weak throughout the District, with steady employment in manufacturing and falling employment on the retail side of the service sector. Moderate price increases were reported in both manufacturing and service sectors. Finally, excessive dampness delayed the planting of crops in most areas of the District.

Retail. Retail sales rebounded since our last report, owing in part to a slower decline in big-ticket sales. The store manager at a central North Carolina chain department store said sales were “coming out of the doldrums,” and Easter sales were especially strong this year. Weakness in big-ticket sales was mitigated by early tax refunds, as consumers bought furniture and flat screen televisions. Also, as the unusually snowy winter ended, sales of seasonal outdoor items such as lawn mowers, improved. A contact at a Washington, D.C., beltway department store reported that sales were 6% above a year ago and that his counterparts at local mall stores also saw improved sales growth in recent weeks. The pace of District grocery sales rose in recent weeks, although a Virginia food distributor noted rapid increases in input prices for many product categories. Sales of automobiles and light trucks were mixed; in the Carolinas and West Virginia, dealers reported stronger business, while sales remained tepid elsewhere in the District. In contrast, a few contacts were less confident – a retailer in West Virginia told us that customers remained cautious about spending. Retail prices edged up slightly since our last report.

Services. Reports from non-retail services firms were mixed. A contact at an advertising business reported, “We expect to bounce along the bottom for some time,” and an executive at a North Carolina property management business said, “The repo man is busy.” While a hospital in the Piedmont area cut employees, blaming the weak economy, another North Carolina hospital executive said previously planned capital projects were going forward. In addition, professional, scientific, and technical firms across the District indicated that business had picked up in recent weeks. Price change at services-providing firms was virtually flat.

Manufacturing: District manufacturing advanced somewhat faster since our last report. A majority of the contacts reported that shipments posted gains and new orders continued to increase, while employment stabilized. A producer of electronic components reported that his company had seen a nice order “bump” in March, providing a strong order backlog going into April. Moreover, a manufacturer of door components noted an unusual confluence of events currently driving his business. “The earthquake in Chile and subsequent halt on shipment of products from that country has resulted in a sharp run-up of demand for domestically produced wood products, with pricing escalating dramatically as well.” Similarly, a ball bearings manufacturer indicated that demand from the automotive industry continued to be very strong, but noted that steel pricing was growing at an alarming rate and freight costs, particularly on ocean freight, were up dramatically. Accordingly, most contacts reported that both raw materials and finished goods prices increased at a quicker pace since our last report.

Port activity over the last few months was up slightly. Both imports and exports posted moderate gains, although exports tended to outperform import gains. While the dollar was seen as a contributing factor, most contacts attributed gains in exports primarily to improvements in overseas markets. One contact stated that exports would have been even stronger if the right mix of containers had been available. However, shipping costs increased in recent months, which discouraged some companies from exporting. One contact also reported that total tonnage so far this year was down from the fourth quarter of last year, partly due to adverse weather that prevented producers from getting their goods to the docks.

Finance. Banking activity was generally mixed, but with more signs of improvements than in our last assessment. On the commercial and industrial side, weak loan demand prevailed in most local markets, although several bankers reported modest improvements. Upticks in loans for new equipment, especially upgrades by professional services, were also noted, and one banker cited an increase in SBA loans. Auto dealers, however, continued to struggle to get floor-plan financing, and construction loans were down. On the mortgage side, reports of loan demand varied between no change and modest increases. Refinancing activity was important in some markets, but rising mortgage rates were curtailing refinancing in others. First-time buyers continued to dominate loan applications. One banker reported an increase in lending on foreclosed homes, and added that very few home loan applications were for upgrades. Credit quality was little changed in recent months, and banks were about evenly split between reporting increases and decreases in delinquent payments.

Real Estate: Residential Realtors in the District gave generally upbeat reports on house sales. While the tax credit program remained the single most important motivating factor, one Realtor told us that sales over the past three months had outweighed all of his 2009 sales and that only 18-20 percent of the buyers had taken advantage of the tax credit. House prices were mixed across the District. For example, prices rose in Fairfax and Greensboro, held steady in Greenville, and were relatively flat in Richmond. Notable decreases in prices were reported in Washington, D.C., where a significant increase in sales of lower-priced properties were reported, and in Fredericksburg, where a Realtor stated that, “banks seem to be willing to take anything within reason to reduce their holdings of foreclosed properties.”

Commercial real estate activity picked up slightly since our last report. Most contacts generally reported an uptick in leasing activity, particularly in the office and industrial sectors, while activity in the retail sector remained sluggish. Effective rental rates decreased somewhat as landlords became more aggressive in offering concessions. Vacancy rates were generally high, although vacancy rates in some local markets did improve. Sales activity continued to be hampered by stringent bank requirements and a scarcity of creditworthy buyers. However, one contact reported that property sales increased somewhat due to foreclosed properties being purchased at very low prices. While contacts reported very little new construction over the past few weeks, some activity was reported on the industrial side for some build-to-suit projects and some bidders continued to submit proposals at low or no profit just to keep their doors open.

Tourism: Assessments of tourist activity improved somewhat since our last report. Along the coast, contacts noted somewhat stronger bookings, compared to our last survey. An analyst on the Outer Banks of North Carolina said that bookings for the Easter weekend were looking good with advanced rentals up 10 percent over last year. A manager from Myrtle Beach indicated that last-minute bookings had picked up, which he attributed to the recent warm weather and steep discounts on special packages at most hotels. Managers at mountain resorts throughout the District reported one of their best ski seasons ever—both in terms of business activity and revenues—and mentioned that vacationers were booking early and staying close to home. Finally, the 98th annual National Cherry Blossom Festival in Washington, D.C., is off to a good start and is expected to attract record crowds.

Labor Market. Fifth District labor markets remained soft over the past several weeks, but declines in some sectors eased. Job cuts subsided at retail businesses, and employment was unchanged at most other services firms as well as in manufacturing. A West Virginia automobile

dealer increased hiring, and a retailer reported that he was only replacing workers, but continued to give raises. Average wages edged higher in March in the service sector, but declined slightly in manufacturing. Contacts at temporary employment agencies reported generally stronger demand for temporary help since our last report. Reports from some agency clients indicated that, while they saw an increase in business, they remained unsure how long it would last and opted to continue using contingent labor. However, one temporary agency reported that clients were now filling positions that had been eliminated at the depth of the economic downturn.

Agriculture. Although drier weather prevailed in recent weeks, wet fields continued to hinder plantings and field preparation in many areas of the District. Indications of delayed fertilization of winter grains and forage seeding were evident in some areas. In Virginia, grain farmers attempted to fertilize their wheat and barley fields, but were forced to wait for drier weather. In addition, hay was still being fed to livestock in many areas of the state. Nevertheless, winter wheat was reported to be in mostly fair-to-good condition in South Carolina and West Virginia. In addition, drier weather during the first week of April allowed farmers in South Carolina to plant corn at a rapid pace. Finally, results of our recent survey of agricultural credit conditions indicated that farmland values were above the previous quarter and year-ago levels.

SIXTH DISTRICT – ATLANTA

Summary. Business contacts around the District described economic activity as improving in March and early April. Retailers saw an increase in traffic and sales and their outlook improved. Auto sales increased on a year-over-year basis, while revenues in the District's tourism segment were described as stable. Residential real estate contacts indicated that both new and existing home sales improved and were above weak levels from a year earlier. Commercial contractors, on the other hand, continued to cite weakness in nonresidential construction activity. District manufacturers noted further improvement in new orders and production. The flow of bank credit to businesses remained subdued. Permanent hiring remained weak. However, temporary help agencies noted an increase in job orders. Manufacturers and homebuilders reported increases in input prices but indicated that they were not able to pass them through to consumers.

Consumer Spending and Tourism. District merchants indicated an improvement in traffic and sales in March. Retailers reported that despite the uptick in sales, they continued to keep inventory levels lower than normal; several merchants related that they preferred risking lost sales to having excess inventories. The outlook among retail contacts also improved with the majority expecting sales to increase over the next couple of months. District vehicle sales increased from a year ago, largely driven by an expansion in fleet sales deferred from last year.

Tourism-related spending was described as stable in most parts of the District. Contacts in Atlanta, Miami, Nashville, New Orleans, Orlando, and Tampa all reported hotel occupancy rates above the national average from February to March. Cruise lines noted increased demand and have unwound some earlier price discounting. The near-term outlook among hospitality contacts remained generally upbeat. However, corporate bookings remained at very low levels at some high-end resorts.

Real Estate and Construction. Homebuilders reported improved new home sales across the region, and that construction activity increased modestly from very low levels. Several homebuilders noted that difficulty in obtaining mortgage financing and lower property appraisals were impeding sales. New home inventories remained down, sharply from a year earlier, and the majority of homebuilders continued to cite year-over-

year price declines. Overall, the outlook for home sales and construction improved modestly from the previous report.

Realtors indicated a slight improvement in existing home sales with nearly half of those contacted reporting modest increases. Sales at the low-end of the market continued to outpace those at higher price points. However, sales growth at the low-end moderated from late-2009 levels, while mid- to high-end home sales stabilized. Similar to comments from homebuilders, many Realtors also noted that difficulty in obtaining financing was impeding home sales. Most continued to cite downward pressure on home prices. The outlook for sales over the next several months continued to be modestly positive.

Low levels of commercial construction continued across much of the District. Most contractors described activity as relatively flat compared with previous reports, and a few cited additional weakness. The volume of backlogs was little changed but remained lower than a year ago. Most indicated that the demand for new construction continued to be soft. Looking ahead, the majority of contacts anticipated commercial construction will continue to be weak for the remainder of the year.

Manufacturing and Transportation. The majority of District manufacturers reported that new orders increased and production levels improved. Contacts noted increased hours worked and many anticipated employment gains in the short-term. A few auto assembly plants recalled some workers. Freight demand continued to improve from low levels. Regional rail shipments through mid-March were up notably for automotive, chemical, and other raw industrial materials.

Banking and Finance. The flow of bank credit to businesses remained subdued. District bankers continued to indicate that ample credit was available to qualified borrowers, and many noted that the volume of loan applications was low for households and small businesses. In contrast, several firms noted that tighter credit standards were making it difficult for them to obtain loans. Some contacts suggested that trade credit terms also tightened with some suppliers having modified terms or reduced credit without regard to payment history.

Employment and Prices. Unemployment remained high across the District in February and March. Some employers indicated that public policy uncertainty had

contributed to some reticence to hire permanent workers. However, many businesses continued to increase hours worked for existing staff, and some increased the number of temporary staff, particularly in Florida.

District manufacturing and homebuilder contacts reported increases in commodity-related material prices compared with a year ago, though prices softened somewhat on a monthly basis. Several businesses expressed concern that supply chain capacity reductions in some industries could lead to further input price increases if product demand increased rapidly.

Natural Resources and Agriculture. Crude oil production in the District edged up in late February and March. The increase in output, combined with soft energy consumption, pushed crude inventories in the Gulf of Mexico close to the top of their seasonal average for this time of year. Recent wet weather and colder-than-usual temperatures have negatively affected some crops in Alabama and Florida and limited farm work in some areas.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District improved in March, and contacts indicated that consumer and business confidence were on the rise. Manufacturing continued to lead the way, while consumer and business spending also increased and credit conditions improved. Construction, however, remained weak. Price pressures were small on balance. The spring weather resulted in good progress toward normal planting conditions.

Consumer spending. Consumer spending increased in March. Retail sales continued to improve, with the rate of increase accelerating some in late March. As in the previous reporting period, the strongest performance was for sales of nondurables and necessities with some improvement in sales of durable and luxury goods. Auto sales increased substantially in recent weeks. Dealers noted an increase in showroom traffic as more serious buyers were being lured in by favorable pricing and credit terms. Furthermore, dealers also reported that new incentives from Toyota were helping to offset some of the decline in their sales in February. The pace of tourism activity increased slightly with hotel occupancy rates rising due in part to cuts in daily rates, especially at luxury hotels.

Business spending. Business spending also increased from the previous reporting period. Contacts indicated that with overall inventory levels still relatively low, some inventory rebuilding was occurring in retail trade as well as manufacturing. In a further sign of rising business confidence, capital expenditures on equipment and merger and acquisition activity were also noted to have increased. Labor market conditions improved slightly from the previous reporting period. Several manufacturing contacts added overtime or additional shifts, and were beginning to consider adding more employees with business conditions continuing to improve. Demand also continued to be strong for temporary workers with a large staffing firm reporting that billable hours had increased substantially. Some permanent hiring was noted in manufacturing and retail trade; however, in general, hiring remained limited with many firms still wary of adding employees.

Construction/real estate. Construction activity remained weak in March. Residential construction was limited, and contacts noted downward pricing pressure as builders continued to try to compete against short sales and foreclosures in the resale market. Credit was still tight for developers; but a few smaller builders reported that they had been able to secure financing for homes that were expected to be occupied immediately. Demand for single-family homes increased some in recent weeks with more purchase contracts being signed before the expected expiration of

VII-2

the homebuyer tax credit in April. Demand remained weak for nonresidential construction. The overhang of vacant facilities and excess retail space dampened demand for new commercial and industrial construction, and contacts reported continued downward pressure on commercial rents. Credit conditions were also still tight for commercial real estate, although a contact cited very slight improvement in credit availability in recent weeks for higher quality properties.

Manufacturing. Manufacturing picked up in March, and contacts indicated business confidence was on the rise. Orders increased, particularly in recent weeks, stemming in part from the restocking of inventories. Contacts also reported that production schedules were beginning to firm into the second half of 2010 and viewed this as a sign that some pent-up demand was being released now that the economic outlook was improving and less uncertain. The auto industry remained a strong source of growth, as did the pharmaceutical, mining, and energy sectors. Activity in the steel industry continued to improve, and a contact noted that they were having a hard time meeting demand with the capacity currently on-line. Export activity also remained strong with developing countries providing a boost to demand. In contrast, business conditions for manufacturers with strong ties to construction were weaker, although a contact did note a small increase in the demand for construction equipment. Credit availability for suppliers and distributors remained a concern for manufacturers, with contacts noting an increase in requests to extend payment periods beyond the customary 30 days. Several contacts did indicate, however, that bank credit seemed to be more available now than in the recent past.

Banking/finance. Credit conditions improved from the previous reporting period. Banking contacts again reported improvement in consumer and business loan quality, although credit quality for many smaller firms continued to decline. The pipeline for new loans was still relatively weak. Many upper middle market firms were said to be making due with cash reserves, holding back on borrowing. However, contacts indicated that this may change going into the second half of 2010 as some higher quality borrowers were already beginning to make inquiries now that economic conditions were improving. Credit spreads narrowed for a number of District firms, and volatility declined across financial markets. In addition, contacts reported that liquidity continued to improve. An exception was the repo market where volume was still very low and bid-ask spreads wide by historical comparisons.

Prices/costs. Price pressures were small on balance in March. Contacts indicated upward pressure on prices for plywood, industrial metals, and petroleum-based fuels, although natural gas prices remained at historically low levels. In contrast, retailers reported no significant change in

VII-3

wholesale prices. Wage pressures were minimal. However, an increase in healthcare costs was noted. Pass-through of cost pressures to downstream prices was limited.

Agriculture. The District should have normal planting progress this year, as field conditions were better in March than contacts had anticipated previously. Snow cover melted gradually enough and rains were spaced out enough to avoid major flooding in the District. Farmers in most areas started catching up on field work that was left undone last fall, especially fertilizer applications. There was also harvesting of fields left standing over the winter. Blending together poor and better quality corn minimized problems with the feeding and storing of corn, but some farmers were still stuck with lower quality corn. More acres of corn and soybeans were expected to be planted than a year ago, as fewer acres of wheat were planted. Corn and soybean prices were up slightly during the reporting period, while wheat prices declined. Hog and cattle prices increased, but milk prices decreased.

Eighth District - St. Louis

Summary

Economic conditions in the Eighth District softened in most sectors since our previous report. Manufacturing activity declined on balance, as did activity in the services sector. Although residential real estate markets remained weak, home sales and issuance of construction permits increased in some metropolitan areas of the District. Activity in the commercial and industrial real estate markets, construction in particular, remained weak throughout the District. Overall lending activity at a sample of small and mid-sized District banks decreased slightly in the first quarter of 2010 compared with the fourth quarter of 2009.

Manufacturing and Other Business Activity

Manufacturing activity declined since our previous report. Contacts reported more plant closures and job layoffs than plant openings and new hires. Several manufacturers reported plans to consolidate operations and lay off employees, including firms in the appliance; heating, ventilation, and air conditioning; steel; and machinery manufacturing industries. Furthermore, firms in the construction materials, auto parts, and food and beverage manufacturing industries announced plans to close a plant in the District. In contrast, a major firm in defense goods manufacturing announced plans to add new jobs and expand production. Several small firms in food and beverage manufacturing and metal products manufacturing announced plans to expand operations and hire new workers.

The District's services sector also continued to decline despite the increase in temporary employment from the 2010 Census. Several regional government agencies and education services providers announced job cuts in response to declining budgets. A major firm in print and publishing services announced it will close a facility in the District. A large medical

VIII-2

services provider also announced significant job cuts to achieve operational efficiencies. In contrast, a large regional transportation authority was awarded a major contract from the Department of Transportation, and a firm in business support services announced plans to hire new workers. Contacts in the retail sector noted the opening of several new establishments, particularly in the food industry. A major trade show also signed a long-term lease with a metropolitan area in the District. An auto dealer noted stronger than expected demand, particularly for light sport utility vehicles.

Real Estate and Construction

Home sales were mixed in the Eighth District. Compared with the same period in 2009, February 2010 year-to-date home sales were down 5 percent in Little Rock and 9 percent in Memphis and St. Louis. Year-to-date home sales in Louisville, however, were up 16 percent for the same period. Residential construction, on the other hand, is improving throughout most of the District. February 2010 year-to-date single-family housing permits increased in most District metro areas compared with the same period in 2009. Permits increased 17 percent in Louisville, 30 percent in Memphis, 41 percent in Little Rock, and 60 percent in St. Louis.

Commercial real estate and construction markets continued to struggle throughout the District. A contact in St. Louis expects commercial property foreclosures to rise. A contact in Evansville, Indiana, reported that major construction is still slow. A contact in northeast Arkansas noted that the only major construction projects are related to a local university and medical center. Industrial real estate and construction contacts throughout most of the District also continued to report a sluggish environment. A contact in Louisville described the first-quarter industrial real estate market as dismal. A contact in Memphis, however, indicated that

VIII-3

industrial real estate may be showing signs of improvement. A contact in St. Louis expects little to no speculative industrial construction to take place in 2010.

Banking and Finance

Total loans outstanding at a sample of small and mid-sized District banks decreased 2.7 percent in the first quarter of 2010 relative to the fourth quarter of 2009. Lending activity in various sectors was mixed, however. Real estate lending, which accounts for 73.6 percent of total loans, decreased 2.3 percent. Commercial and industrial loans, accounting for 16.1 percent of total loans, decreased 4.9 percent. Loans to individuals, accounting for 5.6 percent of loans, increased 3.3 percent. All other loans decreased 8.3 percent. Over this period, total deposits increased 0.6 percent.

Agriculture and Natural Resources

Total winter wheat acreage in the District states in 2010 decreased by 41 percent from 2009 levels, and most of each state's crop was reported to be in fair or good condition. Farmers in the District reported that they expect to plant 5 percent more acres of corn and 10 percent more acres of both cotton and rice in 2010 than in 2009. In contrast, they anticipate planting 6 percent fewer acres of sorghum and 4 percent fewer acres of tobacco than last year. They expect to plant the same number of acres of soybeans as last year.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew moderately since the last report. Consumer spending, tourism, residential real estate and construction, services, manufacturing, energy, mining and agriculture saw increases. Commercial real estate was flat at low levels, and construction activity was slow. Labor markets remained weak, but some signs of hiring were noted. Overall compensation levels were flat, and price increases were moderate.

Consumer Spending and Tourism

Consumer spending increased modestly. A Minneapolis-St. Paul area mall noted that February same-store sales were up 7 percent compared with a year ago; traffic levels were up even more. A major Minneapolis-based retailer reported that same-store sales in February were up about 2 percent compared with a year earlier. Recent retail activity in Great Falls, Mont., has picked up modestly; Canadian traffic was solid. A Minnesota-based restaurant and bar chain noted that March sales and guest counts were up over 5 percent compared with a year ago, while another Minnesota-based restaurant chain reported that March sales were down 2 percent.

Vehicle sales picked up in March compared with a year ago when sales were substantially down. A number of dealerships in the Minneapolis-St. Paul area reported that sales were up over 40 percent in March compared with a year ago; strong incentives by automakers helped boost sales. Recent vehicle sales have been steady in North Dakota, according to a representative of an auto dealers association.

Overall travel and tourism activity was up slightly. A ski resort in northern Minnesota noted that February and March ski lift sales and lodging were higher than a year ago. A Minnesota-based travel agency noted that corporate travel during February and March was up slightly from a year ago. Winter tourism activity was about even with a year ago in Montana, but tourism-based businesses noted an uptick in February and March, according to an official. In northwestern Wisconsin, excellent snow conditions boosted snowmobiling and cross-country skiing in February; warm weather in March brought an early end to snow sports, but tourism businesses are optimistic for the summer season.

Construction and Real Estate

Commercial construction was weak. February nonresidential permits in Sioux Falls, S.D., were substantially lower than a year earlier. A producer of commercial construction

materials said demand has been slackening. However, several hotel and medical developments are in progress in Great Falls, Mont.

Meanwhile, residential construction showed signs of strengthening. March home building permits for the Minneapolis-St. Paul area more than doubled in value from the same month a year earlier—their highest level since 2007—primarily due to gains in the multifamily sector. In contrast, February residential permits in Sioux Falls decreased 21 percent from a year earlier. Construction activity in western Montana continues to be very slow, according to developers there.

Commercial real estate was flat at low levels. A commercial real estate broker in Fargo, N.D., said vacancy rates were down slightly for office properties, but the industrial segment was weaker. A Minnesota commercial broker said rents there were at their lowest levels since 1990.

Residential real estate continued to rebound. Closed sales in late March were 11 percent higher than a year earlier in Minneapolis-St. Paul, and sales prices increased. Sales also picked up in western Montana, due in part to big reductions in asking prices.

Services

Overall activity increased slightly in the professional business services sector since the last report. Contacts from information technology and Web development firms noted solid orders. A law firm that specializes in debt collections and another that specializes in bankruptcies were expanding due to strong demand. However, contacts from other law firms indicated that new business was unchanged. Architects indicated flat activity at low levels.

Manufacturing

Manufacturing output was up since the last report. A March survey of purchasing managers by Creighton University (Omaha, Neb.) showed that manufacturing activity increased significantly in Minnesota and South Dakota and was flat in North Dakota. A small Minnesota transmitter maker plans to expand into a larger facility. In North Dakota, a wind energy component manufacturer plans to build a plant.

Energy and Mining

Activity in the energy and mining sectors increased since the last report. Late-March oil exploration increased significantly from early February. A major electrical utility recently announced plans for a large-scale wind energy farm in western Minnesota. Several sources

noted solid prices and demand for iron ore, as production in February increased slightly from January levels.

Agriculture

Agricultural activity increased. The calving season was progressing very well due to the mild end to winter across most of the District. Cattle producers were optimistic, as they expected a continued uptick in output prices. District farmers planned to plant 3 percent more soybean acres, 4 percent fewer wheat acres and about the same number of corn acres as last year, according to the U.S. Department of Agriculture. Meanwhile, producers of organic agricultural products noted a decrease in demand, and dairy producers were concerned about softening in output prices.

Employment, Wages and Prices

Labor markets remained weak, but some signs of hiring were noted. A tractor supply store in eastern Montana reported receiving more than 30 applications for every job opening. Employers in the Sioux Falls area noted a relatively large number of applications for seasonal jobs. Also in South Dakota, 35 workers were laid off at a technology firm, and about 25 workers were laid off at a business outsourcing company. A North Dakota manufacturer announced plans to lay off 60 workers.

In contrast, two employment placement firms in Minnesota reported an increase in hiring for some entry level positions and an increased interest in executive placement services. Also in Minnesota, a bank announced intentions to hire more wealth management advisors, a wind energy project just under way will create 150 jobs and an auto dealer will hire 15 salespeople.

Overall wages were flat, as a number of contacts noted that wages and salaries at their companies were level with a year earlier. The University of Minnesota's faculty senate recently approved a measure to cut pay temporarily for most University employees by about 1 percent.

Price increases were moderate. Minnesota gasoline prices at the end of March were up slightly from the end of February. However, copper and nickel prices increased since the last report, as well as some prices for lumber and steel products.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy expanded moderately during March, and District contacts expected economic conditions to improve further in coming months. Warmer weather conditions led to increased retail traffic and supported a modest rebound in consumer spending, generating some optimism among District contacts. Manufacturing and transportation activity continued their steady rebound, resulting in a few new hires. District housing activity rose and contacts anticipated further improvements in coming months. In contrast, commercial construction activity continued to wane. Energy activity expanded further, but natural gas production was expected to ease with slower summer demand. Agricultural conditions remained solid as livestock profits improved and strong crop profitability boosted planting expectations this spring. Wage pressures remained muted and retail prices held steady, but some manufacturers were considering raising selling prices due to higher raw material costs.

Consumer Spending. Consumer spending rebounded in March as customer traffic improved with warmer weather. Retailers reported higher than expected sales and were optimistic that business activity would continue to recover. Apparel items sold well, and demand for lower-priced durable goods rose. After months of declines, auto dealers reported steady sales in March and were hopeful that increased showroom traffic would spur purchases. Mid-size cars and SUVs were in greatest demand. Restaurants reported more diners but less spending per check, resulting in flat sales. Travel and tourism activity edged up and was expected to strengthen further approaching vacation season. District hotel owners reported higher average room rates and increased occupancy.

Manufacturing and Other Business Activity. Manufacturing and transportation activity expanded solidly since the last survey period. Manufacturing production improved to near year-ago levels as slightly slower growth at non-durable goods plants was offset by stronger durable goods production. A moderate rise in shipments and exports reduced inventories and the backlog of orders increased slightly. Producer expectations for future factory activity improved with sustained growth in new order volumes. Employment levels held steady during the survey period, but more manufacturers planned to increase payrolls over the next six months. Capital spending plans, however, remained largely on hold. After rebounding in the last survey period, sales activity in the transportation sector rose further, but firms were concerned about rising fuel

costs. Some trucking companies were hiring qualified drivers. The high-tech industry reported a decline in demand for commercial consulting services as clients cut costs. However, an increase in projects to retro-fit existing facilities to maximize efficiency was noted.

Real Estate and Construction. Residential real estate activity strengthened in March, while commercial real estate activity weakened further. Residential builders reported an upswing in building starts after the harsh winter. Home sales and buyer traffic moved higher, though sales prices fell slightly with a rise in existing home inventories. The home buyer's tax credit continued to support the starter home market, but District contacts expected slower sales after the incentive program expires. Sales of higher priced homes remained sluggish. Mortgage lenders reported an increase in home purchase loans while loan refinancing volumes declined. Construction supply firms anticipated stronger sales for new construction materials as well as higher consumer demand for home improvement supplies. In contrast, commercial real estate activity remained well below year-ago levels. Contacts also noted that few new construction projects had qualified for financing due to continued tight credit conditions. Vacancy rates edged higher, rents fell further, and sales were expected to remain sluggish. Leasing concessions were common as landlords tried to retain current tenants and attract new ones. Some distressed commercial properties were being put on the market and more were expected to follow.

Banking. Bankers reported lower loan demand, stable deposits, and an unchanged outlook for loan quality. Overall loan demand declined at a slightly faster pace than in the previous survey. Demand for commercial and industrial loans and commercial real estate loans fell moderately. Demand also declined somewhat for residential real estate loans and consumer installment loans. A few banks tightened credit standards on commercial real estate loans, but credit standards for other loan categories were generally unchanged. Somewhat fewer banks than in the previous survey reported lower quality than a year ago. As in the previous survey, however, about a third of respondents expected loan quality to decline over the next six months. Deposits continued to show little change overall. Several respondents said that some of their depositors were shifting funds to alternative investments such as stocks and bonds in search of higher yields.

Energy. Energy activity expanded during the survey period, and additional modest gains were expected in the coming months. After rising in March, the number of active rigs in the District approached year-ago levels. Several firms planned to hire additional staff, primarily

engineers and skilled labor. Crude oil prices were expected to rise due to a seasonal uptick in demand and improvement in the world economy. Natural gas prices, however, were expected to decline with excess supply and lower summer demand. Some contacts noted that the expansion in drilling activity could be constrained by the availability of labor, equipment, supplies, and financing. A Wyoming producer also noted difficulty obtaining drilling permits and a decline in land lease sales which could also hinder future development. District coal production increased in March, but remained below year-ago levels. Ethanol profit margins have fallen below capital costs and biodiesel production remains stalled after the loss of a federal tax credit eliminated profits.

Agriculture. Agricultural conditions improved since the last survey period. Livestock prices strengthened in March boosting profitability, especially for cattle producers, and prices were expected to rise further with smaller supplies. Crop prices edged down in March with the prospects of increased plantings and bumper crops. The winter wheat crop was reported in generally good condition. District plantings of corn and soybeans were expected to increase this year, most notably in Kansas where winter wheat plantings declined. Soil moisture levels were more than adequate and contacts were concerned that excessively wet fields could delay spring planting again this year. Lenders reported ample funds were available to satisfy rising demand for farm operating loans in preparation for spring planting. Cropland values remained solid with limited sales activity.

Wages and Prices. Wages held steady since the last survey period, and some factories considered raising selling prices in coming months as raw materials prices rose further. Contacts reported little wage pressure in District labor markets, and most companies hiring new workers were not offering higher salaries to attract qualified applicants. Input prices rose in March and were expected to rise further in coming months. District manufacturers reported additional increases in prices paid for raw materials. Builders and construction supply companies stated that prices for construction materials increased, especially for roofing shingles and asphalt. Transportation companies paid higher prices for fuel, and restaurant owners noted higher food costs. Some manufacturers planned to raise selling prices in the months ahead. Most retailers, however, did not anticipate raising prices, and restaurants expected menu prices to remain flat.

ELEVENTH DISTRICT—DALLAS

Economic activity in the Eleventh District firmed up further over the past six weeks. Respondents in high-tech manufacturing, retail, residential real estate, energy and staffing and transportation services cited continued improvement in demand. Conditions in the commercial real estate, financial services and construction-related manufacturing sectors also showed signs of nearing bottom. Although respondents continued to express caution in their outlooks, overall expectations were slightly more optimistic than the last report.

Prices Weak demand, excess capacity and competition continued to put downward pressure on selling prices or fees across several industries, and some contacts noted lowering prices to keep the business. There were reports of an uptick in raw materials prices for steel, fuel, cotton and sugar. Rising raw material costs are squeezing margins as many contacts are unable to pass on these increases to clients.

Crude oil prices rose from \$75 in mid-February to over \$80 per barrel in late March. On-highway prices for diesel and gasoline followed suit, rising nearly 20 cents per gallon. Prices of chemicals and related products also rose sharply largely due to plant outages. In contrast, natural gas prices slipped from \$5.50 per Mcf to near \$4 during the reporting period due to continued high levels of production, low industrial demand and the end of the winter season.

Labor Market Employment levels held steady at most respondent firms. Layoffs have subsided but most firms are hesitant to hire new employees. On a more positive note, staffing firms continued to cite increased hiring activity, and there were reports from a few high-tech manufacturing, paper and lumber industry respondents that temporary hiring had edged up. A high-tech manufacturer noted opening a new plant, while a large discount chain operator said they were opening new stores and expanding headcount albeit at a much slower pace than before the recession. Additionally, some energy service and transportation manufacturing firms noted an uptick in hiring. Wage pressures were nonexistent, and a handful of firms reported they planned on partially reinstating employer matches to employee 401(k) plans or on giving small pay increases.

Manufacturing Reports from construction-related manufacturers were mixed, but overall they suggest that activity has bottomed out. Some firms noted that favorable weather in March led to an uptick in orders, while others reported continued weakness. Contacts say that while the “worst may be over”, they expect a slow recovery in business. Fabricated metals producers cited a sharp rise in orders, and reported a positive sales outlook for the next three months.

Producers of trailers reported a large increase in orders over the past month, and added that they were building up inventories to better meet customers’ needs. Manufacturers of emergency vehicles said growth in orders decelerated over the past six weeks as customers, particularly municipalities, are

experiencing a decline in tax revenues. An aircraft components manufacturer reported an uptick in demand but said that orders remained significantly below year-ago levels.

Paper manufacturing firms cited flat to rising demand. Respondents say conditions have improved relative to last year, but the picture is far from rosy and expectations are for a slow and gradual recovery. Food producers said demand held steady over the past month, and noted a positive sales outlook for the year.

Respondents in high-tech manufacturing reported that orders continued to accelerate and the book-to-bill ratio was well above one. Contacts say inventories have increased slightly but still remain below desired levels. In an industry where prices typically fall, strong demand has helped stabilize prices. Most respondents are cautiously optimistic that demand will remain solid over the next three to six months.

Petrochemical producers report that ethylene plant outages have led to large increases in prices for ethylene and other related products such as polyethylene and polyvinyl chloride, which has dampened export demand for these products. Refinery margins remain very weak, and capacity utilization rates are below 80 percent.

Retail Retail sales rose further during the reporting period. Large discount store chains noted an increase in demand especially for electronics and household items, and department store sales were also better than expected. Contacts say although consumers remain cautious, they are regaining confidence and are more willing to spend. Outlooks remain guarded but contacts expect continued improvement in sales throughout the year.

Automobile sales rose over the past six weeks, which contacts attributed to improving consumer confidence. Inventories remain lean. Prices are flat but rebates recently introduced by Toyota, have led other automotive manufacturers to follow suit.

Services Staffing firms say orders are streaming in at a solid pace and are well ahead of last year. Demand is still largely for contract work, but direct hire placements are picking up pace. Sustained growth in orders has boosted contacts' assessments of current conditions as well as their near-term outlook. Accounting firms note that demand outside of tax related services remains sluggish. Demand for legal services held relatively flat at low levels, with the exception of a slight uptick in energy-related activity.

Reports from transportation service firms were generally positive. Strong overseas demand pushed up intermodal cargo volumes over the past month. Small parcel shipping firms said a pickup in demand from the professional and business services, manufacturing and nondurable retail sectors led to positive growth in volumes. Railroads reported a modest but broad-based increase in shipments, and noted that the outlook is more upbeat than last time. Airline demand appears to be slowly improving, with

leisure travel seeing continued growth and business travel stabilizing. Contacts expect demand for air travel to be steady this year.

Construction and Real Estate Housing contacts noted more favorable conditions. Builders said sales in the first three months of the year were relatively strong, especially at the low end. Sales of higher priced homes are happening but they are not as widespread. Given the severe cutback in construction in the first quarter of 2009, builders have been pro-active in adding spec homes in hopes of sales and closings before the expiration of the current tax credit. Realtors were encouraged that prices were up slightly and noted the housing market was in the beginnings of a modest rebound. Overall, housing contacts were more positive in their outlooks.

Apartment demand in most Texas markets was “meaningfully positive,” according to contacts. New product was leasing well and there were fewer move-outs in older units, consistent with an improving job market. Lower rents were “doing their job” and generating positive demand. The exception was Houston, where overall leasing was weaker.

Reports from commercial real estate contacts were mixed, but overall they suggest the sector may be nearing bottom. Declining rental rates have spurred leasing activity in the office and industrial markets. One industrial contact noted that landlords have “taken a realistic look” at conditions and are offering drastic reduction in rental rates on renewals. Respondents noted that while absorption had improved, there would be no construction any time soon. Commercial property sales activity picked up from very low levels. Contacts said while the good deals being offered were minimal; there were many interested buyers and lenders. Outlooks for the commercial real estate sector were mixed, with some contacts expecting continued improvement and others anticipating a longer, rocky road ahead.

Financial Services Loan demand remains soft but appears to be stabilizing. Contacts are seeing more commercial and industrial loan activity in the pipeline as well as some improvement in credit card volumes and consumer loan demand, albeit with more aggressive pricing. Real estate lending is still restricted. Deposit growth has been relatively flat, and lending standards remain tight. Credit quality appears to have turned a corner, and is either stabilizing or improving. Despite a shift towards stabilization and slight optimism, much uncertainty remains around impending regulatory changes, particularly for community banks. Overall, most contacts expect growth in revenues and loan demand to be slightly positive this year.

Energy The rig count rose further over the past six weeks. Oil-directed drilling continued to be boosted by rising oil prices. Contacts say the increase in gas-directed drilling is not justifiable at current low prices, but firms are drilling based on futures prices locked in earlier, to hold leases and to learn the shale technology. There is concern that gas-directed drilling will decline in the second half of the year. Demand for oil and gas services and equipment continues to grow with the rig count.

Agriculture Wet weather continues to boost pasture growth. It has, however, delayed spring planting in some areas, which may lead producers to shift away from corn in favor of crops with shorter planting seasons such as cotton and grain sorghum. Net farm income is expected to be higher in 2010 compared with last year but below the ten-year average.

TWELFTH DISTRICT—SAN FRANCISCO**Summary**

Economic activity in the Twelfth District continued to improve modestly during the reporting period of late February into early April. Upward price pressures were quite limited, and upward wage pressures were largely absent. Sales of retail items and services remained somewhat sluggish, but both continued to show signs of improved demand. District manufacturing activity firmed a bit further, with improvement noted even in the sectors that have been among the most troubled, such as metal fabrication and wood products. Sales continued to expand for agricultural products, while demand for energy resources was mixed. Housing demand appeared to be little changed from the previous period, but conditions in commercial real estate eroded a bit further on net. Contacts from financial institutions reported largely stable lending activity and further declines in credit quality.

Wages and Prices

Upward price pressures were limited on net during the reporting period. The prices of oil and selected industrial commodities such as steel rose. Contacts also reported price increases for transportation services, notably for transpacific shipping. More generally, however, contacts in various sectors noted that final prices for a wide variety of retail items and services continued to be held down by weak demand.

Upward wage pressures remained largely nonexistent, although businesses continued to report significant increases in the costs of employee benefits, such as health insurance and pensions. High levels of unemployment throughout the District kept wage pressures to a minimum, and contacts noted continuing work furloughs and hiring freezes in some sectors. Rising reliance on temporary workers in some sectors put additional downward pressure on wages for permanent employees.

Retail Trade and Services

Sales of retail items continued to improve but remained somewhat sluggish on net. Discount chains and traditional department stores reported further sales gains, and although consumers continued to focus their purchases on necessities, a few contacts pointed to increases in discretionary spending.

Retailers of furniture, appliances, and electronic items noted improved sales. Demand remained strong for grocers, although contacts reported disruptions in supplies of fresh produce caused by the earthquake in Chile. Sales of new automobiles firmed somewhat as dealers stepped up their promotional activities. Sales of used automobiles rose strongly, but contacts noted that limited supply and rising prices may restrain sales going forward. Contacts in general expect consumer spending to strengthen further in the second quarter of 2010.

Demand for services remained lackluster overall but showed further signs of improvement on balance. Contacts in the restaurant and food services industry noted modest increases in demand. For providers of professional and media services, sales were largely stable at low levels, although they rose slightly for some categories. Energy utilities reported increased demand from households and from businesses in selected industries, notably large retail establishments and firms in the technology, health services, and lodging sectors. Conditions improved a bit further in the tourism and leisure sector: contacts in the Southern California and Seattle markets noted recent increases in hotel occupancy rates, while contacts in Hawaii and Las Vegas saw additional increases in visitor volumes.

Manufacturing

District manufacturing activity continued to improve during the reporting period of late February into early April. Demand strengthened further for manufacturers of semiconductors and other technology products, with reports pointing to rising sales and high levels of capacity utilization. New orders remained limited for makers of commercial aircraft and parts, but existing order backlogs generally held production rates at or near capacity. Demand improved modestly for struggling companies in the metal fabrication and wood products sectors, although capacity utilization remained at extremely low levels. Activity at petroleum refineries remained well below the five-year average levels, as producers worked down excess inventories arising from weak demand for gasoline.

Agriculture and Resource-related Industries

Demand remained strong for agricultural producers but was mixed for providers of natural resources used for energy production. Sales rose further for assorted crops and livestock products.

Agricultural contacts indicated no changes in the availability of key inputs, and favorable weather in many parts of the District continued to enhance production conditions for a range of agricultural products. Oil extraction activity remained at relatively low levels but rose somewhat during the reporting period in response to modest increases in global demand, while demand for natural gas fell as a result of warmer weather but otherwise showed scattered signs of firming.

Real Estate and Construction

Housing demand in the District appeared to be largely stable on net, while demand for commercial real estate continued to slide. The pace of home sales remained mixed across areas but appeared largely stable overall, while home prices edged up further in some parts of the District. However, contacts noted that continued limitations on the availability of nonconforming “jumbo” loans have restrained sales of higher-priced homes in some areas. Conditions deteriorated further in commercial real estate markets, as vacancy rates for office and industrial space rose in many parts of the District. However, one contact reported continued improvements in leasing activity for some market segments in parts of the District, along with increased availability of financing for commercial real estate transactions. Regarding near-term expectations, contacts in general anticipate that demand for housing in the District will improve modestly in the second quarter of 2010, while a majority expects no improvement in demand for commercial real estate in the second quarter.

Financial Institutions

District banking contacts reported that loan demand was largely stable or up slightly compared with previous reporting periods. Consumer loan demand remained weak overall, and commercial and industrial loan volumes continued to be restrained by businesses’ cautious attitudes towards capital spending. However, scattered reports indicated a small pickup in commercial and industrial loan demand stemming from selected businesses that are planning to replace worn equipment and rebuild inventories. Lending standards continued to be relatively restrictive for consumer and business lending, and banks reported additional loan losses. Further modest gains in levels of venture capital funding were noted.