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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

February 2011

**SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS**

February 2011

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SUMMARY*

Reports from the twelve Federal Reserve Districts indicated that overall economic activity continued to expand at a modest to moderate pace in January and early February. Both Kansas City and San Francisco noted that their economies expanded further. Boston and Philadelphia cited conditions as improving. New York, Cleveland, Richmond, Atlanta, and St. Louis described activity as modestly improving, while Minneapolis and Dallas experienced moderate growth. Chicago reported that although there was an increase in activity, it was at a pace not quite as strong as during the previous reporting period.

Retail sales increased in all Districts, except Richmond and Atlanta, although Boston, New York, Philadelphia, Atlanta, and Kansas City noted that severe snowstorms had a negative impact on merchant activity. Retail inventory levels were described as desirable in New York, Cleveland, Dallas, and San Francisco. Tourism improved in Richmond, Atlanta, and San Francisco, while New York and Kansas City noted a slowdown in activity as hotel occupancy rates declined. Some Districts reported a slight increase in the level of residential real estate activity, although all Districts maintained that the overall level of home sales and construction remained low. Several Districts indicated improvements in commercial real estate sales and leasing activity, including Boston, Richmond, Chicago, Kansas City, Dallas, and San Francisco. Most reports characterized nonresidential construction as weak.

All Districts, except St. Louis, experienced solid growth in manufacturing production, and new orders improved for Philadelphia, Atlanta, Chicago, Kansas City, and San Francisco. Most regions observed an increase in nonfinancial services. Boston, Philadelphia, and San Francisco reported that sales advanced for services related to information technology, while Kansas City noted softer sales of IT services.

* Prepared at the Federal Reserve Bank of Atlanta and based on information collected on or before February 18, 2011. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Changes in loan demand were mixed across Districts, with Richmond, Dallas, and San Francisco experiencing increased loan demand and Kansas City noting a decrease. Lending standards remained tight across most Districts. Labor markets modestly improved across the country. Boston, Richmond, and Chicago reported more permanent job placements occurring in the market, while Atlanta businesses reported a continued preference for hiring temporary workers rather than permanent workers. Several Districts described an increase in demand for staffing services, especially for high-skilled IT positions. Adverse weather conditions continued to hamper agricultural production in many Districts, but strong prices helped producers of cotton, corn, soybeans, wheat, poultry, hogs and cattle. Energy production expanded or remained stable, according to reporting Districts.

Non-wage input costs increased for manufacturers and retailers in most Districts. Manufacturers, in a number of Districts reported having greater ability to pass through higher input costs to customers. Retailers in some Districts mentioned they had implemented price increases or were anticipating such action in the next few months. Homebuilders in Cleveland and Atlanta had limited ability to pass through cost increases to buyers. Most reporting Districts noted continued strong agricultural commodity prices. Wage pressures remained minimal across all Districts; although Philadelphia, Dallas, and San Francisco noted that most wage increases were for workers with specialized skills.

Consumer Spending and Tourism

Retail spending strengthened compared with a year ago across all Districts except Richmond and Atlanta, where sales were reported to have softened modestly. Boston, New York, Philadelphia, Atlanta, Kansas City, and Dallas commented that severe winter weather in January had a negative impact on retail activity. New York, Chicago, and San Francisco observed that consumers are still responding to promotions and discounting. Meanwhile, Cleveland noted that some of their low- to mid-market segments are still struggling. Some Districts observed an increase in discretionary spending; luxury and big-ticket item sales increased in Cleveland, Chicago, and San Francisco. Inventories were at desired

levels in New York, Cleveland, Dallas, and San Francisco, while contacts in St. Louis had mixed views about their inventory levels. Boston and Atlanta reported tight inventory management. The outlook among all Districts was for a modest increase in retail activity.

Automobile sales increased compared with a year earlier in most Districts. Chicago and Dallas observed that auto sales held steady, while Kansas City's contacts said sales softened because of inclement weather but expected them to rebound in the near future. Cleveland and Chicago noted increased availability of auto financing, and Cleveland reported an increase in leasing activity. Philadelphia, St. Louis, Kansas City, and Dallas indicated that vehicle inventories were at appropriate levels for the current sales rate, while inventories were mixed in Cleveland and lean in New York and San Francisco. All Districts conveyed optimistic outlooks among their auto contacts.

Tourism reports improved in the Richmond, Atlanta, and San Francisco Districts. Atlanta observed a strong increase in international visitors. Kansas City noted a slowdown in tourism amid severe weather but added that ski resorts benefited from the snowfall. New York reported a larger-than-usual seasonal slowdown in tourism with decreases in hotel occupancy rates and Broadway theater attendance, although the level of activity remained fairly high.

Real Estate and Construction

Recent activity in residential real estate varied, but overall sales and construction remained at low levels across all Districts. The Richmond, Atlanta, and Chicago Districts reported a slight improvement in the level of recent activity, while Boston noted that activity was mixed across New England. New York described the housing market as stable with some pockets of improvement. Demand was unchanged according to reports from the San Francisco District. Philadelphia, Kansas City, and Dallas described recent activity as sluggish, and St. Louis noted sales continued to decline. Construction activity was described as flat or down by Cleveland, Atlanta, Minneapolis, and Kansas City. Philadelphia and Atlanta contacts attributed weaker buyer traffic in January to inclement weather, and Philadelphia noted a pickup

in early February. Richmond, Kansas City, and Dallas also indicated an increase in buyer traffic. Reports on home prices were mixed. Atlanta and Kansas City observed persistent downward price pressure. Home prices continued to fall according to Philadelphia reports, but mainly at the high-end of the market. Cleveland and Chicago contacts described prices as little changed. The outlook for residential sales and construction improved marginally, although activity is expected to remain at low levels. Kansas City contacts anticipate a seasonal surge in sales activity this spring. Atlanta, Dallas and San Francisco also expect modest improvement, while little to no sales growth is expected among Philadelphia contacts. A slight uptick is expected in Chicago and San Francisco construction.

Commercial real estate activity showed signs of gaining traction according to a number of District reports. Boston, Chicago and Dallas reported that commercial real estate activity improved overall, while Richmond, Kansas City, and San Francisco noted increases in leasing activity. Kansas City described the market as stabilizing, while Philadelphia and Minneapolis reported that markets were flat overall, and New York described conditions as “slack” and St. Louis as “soft.” Nonresidential construction remained weak according to most accounts. The Boston, Philadelphia, Atlanta, Chicago, St. Louis, and Dallas Districts reported weak levels of construction activity, while Chicago noted a slight pickup. Cleveland District contractors cited increasing inquiries, and unexpected growth in commercial construction was noted in the Minneapolis District. Overall, contacts anticipate a slow recovery in commercial real estate markets.

Manufacturing

Reports from eleven of the twelve Reserve Banks indicated that manufacturing activity improved since the previous report, while St. Louis attributed a decline in manufacturing activity to several factory closings. Cleveland, Atlanta, Minneapolis, and Kansas City noted solid expansion in production, but Chicago observed a more moderate rise in output than in its last report. Cleveland, Atlanta, and Minneapolis indicated that adverse weather conditions temporarily disrupted production. Philadelphia and

Atlanta noticed that a higher percentage of contacts indicated that production levels would increase in the near term. Boston, Cleveland, Kansas City, and Dallas also described the manufacturing outlook as optimistic.

Philadelphia, Atlanta, Chicago, Kansas City, and San Francisco reported more rapid improvement in factory orders. Chicago cited steel, automotive, and heavy equipment manufacturing as sources for significant new orders growth, while Dallas noted that orders for high-tech goods had accelerated. Philadelphia and Atlanta suggested that increases in orders were more broad-based. Cleveland and Richmond observed that orders were increasing at the same pace as in their previous report. Demand from abroad, particularly Asia, was cited by several Districts as a driving force in new orders.

Nonfinancial Services

Districts reporting on nonfinancial services noted increased activity. Philadelphia, Richmond, Minneapolis, and Dallas observed rising demand for general professional business services, with several reports singling out accounting firms. Dallas noted that much of this rise in demand for accounting services was related to consulting and transactional work. Several Districts also cited increased demand for healthcare, insurance, and legal services. The New York District, while reporting that legal hiring had picked up a bit, observed that it was from very low levels. St. Louis reported overall strength in business services, although contacts in government services and religious organizations announced plans to decrease operations and lay off workers. San Francisco also saw improved demand for consumer and business services, but countered that providers of healthcare, legal, and accounting services reported that demand remained largely flat. Information technology and telecommunication providers experienced increases in sales, according to the Boston, Philadelphia, and San Francisco Districts. Kansas City observed softer sales by IT firms, especially those tied to federal stimulus spending, but noted that activity generated by data centers and e-commerce were characterized as strong.

Transportation services firms in the Cleveland, Atlanta, and Kansas City Districts reported an increase in shipments. Cleveland contacts hinted at the possibility of hiring more drivers but also expressed concern over the tightening of the labor pool. Transportation firms in several Districts expressed concerns over rising fuel costs.

Banking and Financial Services

Loan demand varied across District and loan category. Richmond, Dallas, and San Francisco noted improvements in overall loan demand, while Kansas City observed a decrease. Demand for residential real estate loans increased in Philadelphia, Atlanta, and Dallas but was weaker in New York, Cleveland, St. Louis, and Kansas City. The New York, Philadelphia, Richmond, Chicago, and San Francisco Districts reported improvements in commercial loan applications. The Dallas District experienced mixed commercial loan demand, while St. Louis noted that demand was unchanged to weaker. Cleveland reported business loan applications were beginning to pickup but demand for consumer loans remained soft. The Philadelphia District expected little change in loan volume as consumers remained reluctant to borrow.

Most Districts reported that credit standards were unchanged to tighter. Kansas City reported standards were unchanged for all types of loans. New York noted some tightening of commercial loan standards but little change in the standards for residential mortgages or consumer loans. The Atlanta District reported increased standards for residential mortgage loans. St. Louis indicated standards had tightened somewhat for commercial mortgages, but were unchanged for C&I loans, and were unchanged to somewhat tighter for residential mortgages. San Francisco noted relatively restrictive standards for both consumer and commercial loans.

Community bankers in the Chicago and Dallas Districts cited increased competition for C&I lending from large banks. Atlanta noted improvements in credit conditions for all loan segments except those related to residential construction and real estate. Cleveland, Richmond, Chicago, Kansas City, and

Dallas indicated steady to improving credit quality, and New York reported steady to lower delinquency rates. San Francisco reported that venture capital financing was improving with increased investor interest and IPO activity.

Agriculture and Natural Resources

Adverse weather conditions continued to hamper agricultural production in many areas. Extremely cold and/or dry conditions negatively affected crops or livestock in the Richmond, Atlanta, and Dallas Districts. Kansas City also reported poor growing conditions. St. Louis described mixed results for production in many crops, but large increases in rice and cotton production were noted. Most reporting Districts noted continued strong commodity prices were benefitting producers of cotton, corn, soybeans, wheat, poultry, hogs and cattle while there are also some reports of rising input prices, particularly in fertilizer and feed prices. San Francisco observed some boost in export sales for timber companies.

Energy activity expanded or remained stable since the last report. Kansas City and Dallas noted strong drilling activity, while Cleveland and Atlanta reported a decline in permit issuance. In the Atlanta District, drilling activity remained below pre-Gulf of Mexico oil spill levels, although up slightly since October 2010. Coal production remained above year-ago levels in the St. Louis and Kansas City Districts and held steady according to Cleveland. Kansas City reported that oil and gas production increased, while Cleveland noted that production held steady. San Francisco reported that global demand supported oil extraction, while Minneapolis experienced stable oil exploration.

Prices and Labor Markets

Manufacturing and retail contacts across Districts reported rising input costs. Manufacturers in many Districts conveyed that they were passing through higher input costs to customers or planned to do so in the near future. Homebuilders in the Cleveland and Atlanta Districts noted rising material costs, but

acknowledged little ability to pass through the costs to buyers. Retailers in some Districts mentioned they had implemented price increases or were anticipating such action in the next few months. There is little evidence of wage pressures across Districts. Wages remained steady in the Boston, Philadelphia, Cleveland, Kansas City, and Dallas Districts, while moderate wage pressures were reported in the Chicago, Minneapolis and San Francisco Districts. Philadelphia, Dallas, and San Francisco noted that most wage increases were for workers with specialized skills.

Labor market conditions continued to strengthen modestly, with all Districts reporting some degree of improvement. The Boston, Cleveland, Minneapolis, and Dallas Districts cited noticeable improvements in the manufacturing sector, and the Boston and Cleveland Districts also observed increased labor demand in the healthcare and medical sectors. New York reported little or no hiring in the manufacturing sector, although their factory contacts planned on increasing hiring in the coming months. The Boston, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, and Dallas Districts received optimistic reports from staffing agencies. Dallas said that staffing firms experienced continued strong demand, particularly for high-skilled IT positions. The Cleveland District staffing contacts noted some growth in the number of new job openings, with vacancies concentrated in healthcare, manufacturing, and professional business services. Chicago reported that a large staffing firm reported solid growth in billable hours for both industrial and for office and clerical positions, as well as increases in both temporary-to-permanent job transitions and direct hiring of permanent employees. Boston, Richmond, and Chicago noted increases in the conversion of temporary to permanent hires and permanent job placements, while contacts in the Atlanta District reported a preference for hiring temporary staff. Employers in the Boston District reported difficulty in finding qualified candidates for high-skilled jobs. Despite the improvement in most labor markets, some Districts such as New York, St. Louis, Minneapolis and Dallas also noted layoffs in the region.

FIRST DISTRICT – BOSTON

Business contacts in the First District report improving economic conditions. Most responding retailers, manufacturers, staffing firms, and software and information technology services companies cite increases in sales or revenue compared with a year ago, and in some cases, strong increases. Commercial real estate markets across New England are stable to improving, while residential markets remain weak. Both retailers and manufacturers mention price pressures from specific commodities, including copper and oil, with some pass-through to customers. Firms in several sectors are doing or planning some hiring, generally at a modest pace. Outlooks are positive, with firms in most sectors expecting either steady or improved growth in demand for their products and services.

Retail

First District retailers report positive sales results for the months of December through early February, with comparable same-store sales increases ranging from low single-digit percentages to low double digits. Respondents are generally pleased with holiday shopping results; however, while a hardware contact benefited greatly from repeated snowstorms, others speculate that the inclement weather had a negative impact on their stores' sales.

Retailers say they are tightly managing inventory levels. Contacts note cost increases for commodities, including cotton, copper, and plastics, and they expect vendor price pressure to continue or increase in the future. Reflecting those pressures, most respondents report they are implementing more increases in selling price than three or six months ago. They continue to raise headcounts in line with new store openings and report that capital spending plans are in line with expectations for the year. Outlooks are generally cautiously optimistic, with most contacts continuing to forecast slow and steady improvement in 2011.

Manufacturing and Related Services

The vast majority of responding manufacturers finished 2010 with strong sales and have a positive outlook about current business conditions. A manufacturer that sells automobile and other components reports that sales in 2010 were its "best ever" and that sales growth has returned to its pre-recession pace partly because of strong demand from Asia. In addition, a number of firms in the semiconductor and pharmaceutical industries report better than expected growth in Q4; one semiconductor firm, in particular, indicates that sales were well above their pre-recession levels.

Most contacted firms note that business has stabilized and appears to be continuing on a favorable trend in early 2011. This includes a few manufacturers whose outlooks were more negative three or four months ago. In contrast, a business equipment supplier's report was more subdued, as its clients continue

to extend leases on existing products rather than upgrade to newer ones. Firms that produce products for the housing market also report some continued weakness, as does a manufacturer of retail goods catering to lower income consumers. This firm notes that the weakness in demand has continued into the first part of 2011, but it does not anticipate a prolonged slowdown.

Many manufacturers report concerns over the rising cost of raw materials such as steel, copper, and rare earth metals, as well as oil and plastic resins. A defense contractor contact says he is much more concerned about rising raw material costs now than three months ago, especially since most of the firm's selling prices are fixed by long term contracts. Other manufacturers report raising their selling prices 3 percent to 6 percent in early 2011 in response to higher costs, although one is unsure whether the increases will stick. A number of contacts worry that raw material prices are headed back to their early 2008 levels. Firms with limited raw material exposure, however, continue to report stable prices.

Some manufacturers report higher inventories than a year ago or plan to increase their current inventory levels somewhat. Some of this restocking is in response to higher demand, while other firms are hedging against supply chain disruptions and/or higher expected input costs. The pickup in demand has resulted in plans for additional hiring at some firms; other firms also plan to add workers as part of ongoing hiring plans or to better position themselves for expected future demand. Hiring rates remain relatively low, however, and two contacted companies plan modest layoffs as part of ongoing restructuring. In addition, most responding firms plan to increase wages 2 percent to 3 percent in 2011—a lower rate of increase than in the pre-recession years; a few firms, however, plan slightly higher wage increases for more skilled workers to address increasing recruitment and retention difficulties.

Capital spending plans are reportedly on par or somewhat higher this year than last year. In general, firms that plan to increase investment said that they need to upgrade or expand existing structures and systems; some of this increased investment will be directed toward production facilities overseas. Overall, contacted manufacturers seem more upbeat now about current and future economic conditions than in recent months.

Software and Information Technology Services

New England software and information technology firms report increased activity through the end of Q4 2010 and into Q1 2011. Year-over-year revenue increases range from 3 percent to 25 percent in the most recent quarter, with most in the double digits. Contacts report increased demand for software and IT services from the industrial, medical, and education sectors, although some corporate clients remain unwilling to finalize deals. Increased activity has led most respondents to increase their headcounts; indeed, two plan to grow their staff by 10 percent in 2011. Wages continue to trend upward, with most

respondents awarding annual increases in the 3 percent to 5 percent range. Selling prices are steady, and two contacts observe less discounting pressure than a year ago. Capital and technology spending at contacted firms is relatively unchanged. The outlook among software and IT services respondents is generally positive, with most expecting steady or faster revenue growth in 2011.

Staffing Services

New England staffing contacts report that the upward trends of 2010 are continuing. Revenues are flat to increasing year-over-year, with increases in the range of 5 percent to 20 percent. Labor demand has generally increased, with notable improvements in the manufacturing, information technology, and medical sectors. Higher activity is also reported in the legal sector, with increased demand for paralegals and business support personnel. Conversions from temporary to permanent hires continue to strengthen, and a few contacts report an uptick in permanent placements. Labor supply is tightening somewhat in the region, especially at the high end, with most contacts reporting increasing difficulty finding qualified candidates for high-skill jobs. The downward pressure on bill rates seen throughout the first half of 2010 has lessened and pay rates are holding steady. Looking forward, First District staffing contacts are generally optimistic, predicting that the rest of 2011 will bring continued growth.

Commercial Real Estate

The latest reports indicate that commercial real estate fundamentals in New England are either stable or moderately improving, depending on the location. In Hartford, vacancy rates and rents are roughly unchanged since the last report; job growth and associated office demand are currently sluggish, but are expected to improve by summer 2011. In greater Boston, vacancy rates were little changed, leasing volume held steady, and office rents edged up slightly, bouncing back from the trough of the recent downturn. Loan terms for greater Boston properties loosened slightly amid increased competition by lenders. The outlook among Boston contacts is for modest, if not rapid, growth and improvement in office and retail fundamentals in the coming months. In Providence and Portland, limited leasing activity in January was attributed to bad weather and contacts expect slow yet positive absorption of commercial space in 2011. Construction activity is limited across the region, with the exception of the multifamily sector and various small-scale rehab projects in the Boston area.

Residential Real Estate

Residential real estate results were mixed across New England in December, with some states experiencing year-over-year sales declines while others saw modest increases. Home sales continued to decline significantly in Rhode Island, Connecticut, and Maine, while Massachusetts and New Hampshire posted modest increases in sales volume compared with a year ago. Contacts in Massachusetts and New Hampshire note that part of the increase in year-over-year sales stems from especially weak sales in

December 2009, attributable to the (initial) expiration of the homebuyer tax credit in November 2009. Nonetheless, contacts throughout the region note an increase in activity in the past month and express cautious optimism about 2011.

Compared with a year earlier, the median price of homes moved upward in December throughout the region except in Massachusetts, where the median price decline was the first in over a year. Contacts anticipate sales declines for the early months of 2011 as a result of recent snowstorms. Pending sales of homes and condos in Massachusetts fell in January compared with a year ago.

Contacts throughout the region expect modest increases or flat sales in 2011. However, some note that 2011 comparisons with sales in the first six months of 2010 may be misleading, as home sales in that period were boosted by the homebuyer tax credit.

SECOND DISTRICT--NEW YORK

The Second District's economy appears to have expanded at a modest pace since the previous report. Business contacts in most industries report stable to improving conditions and express widespread optimism about the near-term outlook. Labor market conditions have been mixed but generally steady, on balance: There has been little or no net hiring in the financial and manufacturing sectors, but a slight pickup in some other sectors. Retail sales are characterized as relatively strong in early 2011, despite inclement weather, and consumer confidence has continued to improve. However, tourism activity has shown signs of slowing by more than the seasonal norm in early 2011. Commercial real estate markets remain fairly slack: The market for office space has been generally stable, while the market for industrial space has softened somewhat. Housing markets have been mostly stable, with scattered signs of improvement. Finally, bankers report strengthening demand for commercial loans and mortgages but weaker demand for home mortgage loans; they also indicate little change in credit standards and steady to lower delinquency rates.

Consumer Spending

Retailers generally report continued strength in sales in early 2011. One major retail chain notes that sales were ahead of plan in January and on plan in February but that New York City underperformed the rest of the region—possibly due, in part, to the heavy snowfall during January, which is estimated to have reduced sales by about 1 percent. Retail contacts in upstate New York also report that sales have been brisk since the beginning of the year, despite a brief lull in early January, with one Buffalo-area contact indicating that sales continue to be buoyed by a steady flow of Canadian shoppers. Inventories are generally reported to be at desired levels, and the pricing environment continues to be characterized as highly promotional.

Auto dealers in upstate New York report that sales of new vehicles continued to trend upwards in early 2011, as lean inventories of used cars have nudged up prices and spurred demand for new models. Dealers in the Rochester and Buffalo areas report that sales of new autos were up

10-20 percent from a year ago in January, with reports of particular strength for domestic brands. Both retail and wholesale credit conditions continued to improve. Service departments also report fairly brisk business, aside from a brief slow patch in early January. One industry contact notes that a recent auto show in western New York State drew strong traffic. Dealers are generally optimistic about the sales outlook for 2011.

Confidence surveys suggest that consumers are in somewhat better spirits. Siena College's survey of New York State residents shows confidence surging to its highest level since 2007, with good gains both upstate and downstate. The Conference Board reports that consumer confidence among residents of the Middle Atlantic states (NY, NJ, Pa) edged down from a 3-year high in January but remains near the upper end of its recent range.

On a less positive note, tourism activity in New York City registered more than a normal seasonal slowdown since the beginning of the year, though the overall level of activity remains fairly high. Occupancy rates at Manhattan hotels in January were somewhat lower than a year earlier, while revenues held steady, reflecting moderate increases in room rates. In the first half of February, however, revenues have been running a bit lower than comparable 2010 levels—if this persists for the full month, it would be the first 12-month decline in revenues since 2009. Broadway theaters report that, after a brisk December and early January, both attendance and total revenues tapered off noticeably around mid January and have been running roughly 10 percent lower than a year earlier over the past few weeks—in part because a number of shows have closed.

Construction and Real Estate

Housing markets across the District have been generally stable since the previous report, with pockets of mild improvement. An authority on New Jersey's housing industry reports that the market has been performing slightly better in early 2011, as the negative aftermath of last year's homebuyer tax credit appears to have worn off. While there is still a sizable supply of existing homes on the market—including a large number of distressed properties—the inventory of available

new homes in northern New Jersey is reported to be very low. The residential real estate market in metropolitan Buffalo also appears to have recovered to more normal levels of activity after several months of sluggish performance. There are signs of gradual improvement in Manhattan's apartment rental market: Rents continued to rise at a moderate pace, the inventory of available units is described as tight, and fewer landlords are reported to be offering concessions than last year. Conditions in Manhattan's co-op and condo market, on the other hand, appear to be holding steady: A major appraisal firm reports that prices are holding steady across the board and notes that, while contract activity fell noticeably in January, harsh weather is seen as the culprit, and transaction activity appears to be rebounding in February.

Commercial real estate markets generally remain slack—the market for office space has been mixed but mostly stable in recent weeks, while the industrial market has shown further signs of softening. In New York City, office leasing activity has remained fairly brisk, but this has been more than offset by additional space coming onto the market; as a result, vacancy rates edged up in January. Asking rents on Class A properties did edge up in January but were still down nearly 10 percent from a year earlier. Elsewhere across the region, office vacancy rates edged down in northern New Jersey and across much of upstate New York but rose modestly in Long Island and in Westchester and Fairfield Counties. Industrial markets showed further signs of softening across much of the District. Long Island's industrial vacancy rate rose to its highest level in more than a decade, and rents drifted down. In northern New Jersey, industrial vacancy rates held steady, but rents slipped to multi-year lows. Across upstate New York and in Fairfield County, vacancy rates and rents were little changed.

Other Business Activity

Reports from business contacts generally suggest that firms tend to be adding workers, on net, and plan to increase staffing levels in the months ahead. A major New York City employment agency reports that labor market conditions are improving gradually and that hiring activity has

picked up somewhat since the previous report. Financial sector hiring is reported to be up marginally—largely in the areas of trusts and estates—and legal hiring has picked up a bit from very low levels. A securities industry contact reports that layoffs continue but at a subdued pace; still, there is said to be little or no net hiring in this industry. Cash bonuses are reported to be down somewhat from a year ago, though overall compensation is seen as little changed. Most manufacturing contacts, however, indicate that they are currently keeping employment levels steady, though some net hiring is anticipated in the months ahead.

Financial Developments

Bankers report a decrease in the demand for residential mortgages, but increased demand for commercial and industrial loans and especially commercial mortgages; demand for consumer loans is reported to be little changed. Bankers indicate no change in the demand for refinancing. Respondents note some tightening of credit standards for commercial and industrial loans, on net, but no change in standards for the other loan categories. Bankers report no change in spreads of loan rates over costs of funds across all loan categories; spreads had been narrowing towards the end of 2010, based on the prior few surveys. Respondents indicate that average deposit rates have been steady to declining. Finally, bankers report a decrease in delinquency rates for commercial mortgages but no change in delinquencies for the other loan categories.

THIRD DISTRICT – PHILADELPHIA

Business activity in the Third District has improved overall since the last Beige Book. Manufacturers reported strong increases in shipments and new orders in February. Retailers achieved modest year-over-year increases in sales in January and February. Motor vehicle dealers also reported year-over-year sales increases in February. Third District banks reported little overall change in loan volume outstanding since the last Beige Book, although business loan and residential mortgage volumes edged up, while consumer loan volume eased. Residential real estate agents and homebuilders indicated that activity, which was already at a seasonal low along a low part of the business cycle, was dampened further by poor weather. Contacts in the commercial real estate sector said that leasing and construction activity have remained at low levels since the last Beige Book. Service-sector firms reported that activity has increased modestly. Business contacts reported still more instances of price increases for inputs than they did in the previous Beige Book, and output price increases emerged in February as reported by contacts in several sectors.

The outlook among Third District business contacts is positive but not strong. Manufacturers forecast a rise in shipments and orders during the next six months. Retailers expect sales to increase moderately on a year-over-year basis. Bankers expect only slight growth in lending over the next two quarters. Contacts in residential real estate expect little or no increase in activity for the year as a whole. Contacts in commercial real estate expect market conditions to improve slowly during the year. Service-sector companies expect continued slow growth through the first half of 2011.

Manufacturing

Third District manufacturers reported strong increases in shipments and new orders from January to February. Producers across a broad spectrum of 11 manufacturing sectors reported increased demand. Declines in orders were predominant only among producers of apparel and of testing and measuring instruments. Producers within the furniture, petroleum, and fabricated metals sectors reported no overall change in demand. Some manufacturers credited global markets and energy markets as drivers of new demand, and one specifically cited China's rising

costs as allowing them to reclaim work previously lost overseas. Several manufacturers mentioned “tough winter conditions” as affecting shipments and lowering demand.

Third District manufacturers expect business conditions to improve during the next six months, on balance. Among the firms surveyed in February, about half expect increases in new orders and shipments, and less than one-tenth expect decreases. Executives from several sectors that supply the construction industry cited very low levels of highway construction in Pennsylvania and the Mid-Atlantic region and expressed concern over future federal and state highway funding. Capital spending plans among area manufacturers remain positive, but lessened somewhat over the past two months, mostly from January to February.

Retail

Third District retailers generally reported modest year-over-year increases in sales in January and February. Snowstorms deterred shopping and limited the advance in sales in January, retailers said, but most of those contacted for this report indicated that sales rebounded in February. However, revenue increases have been adversely affected by clearance sales of winter merchandise. The consensus among merchants in the region is that sales will continue to grow as the spring selling season gets underway. Most of the merchants who gave forecasts expect sales to increase moderately. The general opinion was expressed by one store executive who said, “We are cautiously optimistic, although we do not think the consumer will step up buying strongly until employment picks up.”

Third District auto dealers contacted in February reported that sales were above the year-ago level and rising gradually from the January level. Dealers generally considered their inventories to be in line with near-term sales expectations. Dealers anticipate sales this year to exceed sales last year, although some remained concerned that further increases in gasoline prices could limit the improvement in sales.

Finance

At most of the Third District banks contacted for this report, total outstanding loan volume has been roughly level since the previous Beige Book. Overall, business loan and residential mortgage volumes outstanding have edged up at commercial banks in the District, but consumer loan volume outstanding has eased. The outlook among Third District bankers

interviewed in February is that total loan volume will expand only slightly over the next two quarters. Bankers said that consumers will remain reluctant to borrow until employment begins to improve more steadily and that business firms are still focused on strengthening balance sheets rather than taking on more debt. One banker expressed a view shared by many when he said, “Creditworthy businesses are not looking to borrow.”

Real Estate and Construction

Residential real estate activity remains “in the doldrums,” according to builders and brokers throughout most parts of the Third District. A builder described traffic as “anemic” through January, as the typical winter lull was depressed further still by harsh weather across the District. While some builders noted a pickup in traffic in early February, the “slower-than-normal January means we won’t know for awhile” whether overall trends are improving. While home prices continue to fall in most parts of the District, the softness is primarily in higher-end homes. The greater than usual prevalence of distressed property sales creates some additional competition for new homebuilders. While market participants “want to be positive,” most seem to have grown weary and wary of anticipating any near-term improvement in the housing sector. They are positioned for a year of little or no growth.

There has been little change in commercial and industrial markets in the Third District since the previous Beige Book, according to area nonresidential real estate firms. Contacts said that vacancy rates and rents have been nearly steady for most property types, although vacancy rates for apartment buildings have been moving down. Contacts in some parts of the District also reported some slight gains in occupancy of industrial buildings. Construction activity has been roughly steady at a slow pace. Looking ahead, commercial real estate contacts expect market conditions to improve slowly during the rest of the year, with increases in construction and occupied space held back by restrained financing and slow employment growth in the region. One contact said, “It will probably take some office markets several years to recover the loss of occupancy caused by the recession.”

Services

Service-sector firms generally reported modest increases in activity since the previous Beige Book. Business-service firms generally have been posting slight gains as their customers see gradual improvement in their own activity. However, as one business-service firm noted, “Customers are keeping within their budgets, and we have to be responsive to that.” Moderate improvement was also noted by firms in the telecommunications, professional services, and health care sectors. Most of the services sector firms contacted for this report expect slow growth in the months ahead.

Prices and Wages

Reports from manufacturers since the previous Beige Book indicated still more pervasive increases in input costs. While much less prevalent, output price increases are becoming more widespread throughout the manufacturing sectors. Retailers generally indicated that selling prices have been steady or declining as they clear out winter merchandise. However, a growing number of retailers mentioned that wholesale costs are rising for goods they are purchasing for sale during the second half of the year.

Business firms in the region reported mostly steady wages since the last Beige Book, although some said they have raised wages and salaries for certain skilled occupations. Employment agencies said there has been some growth in demand for workers recently, and some colleges in the region reported that more companies plan to recruit on campus this year than last year.

FOURTH DISTRICT – CLEVELAND

On balance, economic activity in the Fourth District continued to expand at a modest pace. Manufacturers reported some improvement in new orders and production. Information received from retailers and auto dealers on the post-holiday shopping season was generally positive. Energy production and freight transport volume were stable. Residential and nonresidential construction remained sluggish. And while demand for business loans showed some signs of a pickup, consumer borrowing was weak.

Rising payrolls were limited to the manufacturing and retailing sectors. Staffing-firm representatives noted some growth in the number of new job openings, with vacancies concentrated in health care, manufacturing, and professional business services. Wage pressures continue to be contained. Reports of increasing prices for commodities and steel were widespread. As a result, manufacturers and retailers felt mounting pressure to pass through some of their rising input costs to their customers.

Manufacturing. Reports from District factories indicate continued improvement in new orders and production during the past six weeks. Any declines were attributed to seasonal factors. Compared with year-ago levels, production was generally higher, with many of our contacts experiencing low double-digit increases. Manufacturers are fairly optimistic and expect at least modest growth during 2011. Steel producers and service centers reported that shipping volume rose, with shipments being driven by energy-related, auto, and heavy equipment industries. Looking forward, expectations call for continued growth through at least the first half of 2011. District auto production showed a moderate increase during January on a month-over-month basis. Compared with a year ago, domestic auto makers showed a substantial rise in production, while foreign nameplates posted a slight decline.

A majority of our contacts indicated that capacity utilization rates continue to trend higher. Inventories remain close to targeted levels. The number of manufacturers who expect to increase capital spending during 2011 has increased significantly since our last report. Reasons for the increase include stronger cash flows and a willingness to go ahead with projects that had been postponed during 2010. Prices for metal and agricultural commodities and steel increased, while the cost of most other raw materials has been relatively stable. Many of our contacts reported passing rising input prices through to their customers. Most manufacturers said that they have expanded their payrolls slightly since our last survey, and they expect to continue hiring at the same pace in the near term. Wage pressures are contained. Companies continue to reverse wage/salary cuts and restore payments to 401K plans.

Real Estate. New home construction was generally flat at a low level during the past six weeks, with purchases mainly in the move-up buyer categories. A few builders noted that most of their revenues now come from remodeling work. On a year-over-year basis, sales were

mainly lower. Contractors expect construction to remain sluggish through at least the first half of 2011. List prices of new homes and discounting have shown little change, while some upward pressure on the cost of building materials was reported. Little movement was seen in land positions or spec inventories. We heard many reports of subcontractors struggling to stay in business due to very thin margins. General contractors continue to work with lean crews, and no hiring is expected in the near term.

Discussions with nonresidential builders drew mixed responses, with a majority of our contacts reporting weaker activity than a year ago. However, the number of inquiries has picked up modestly since our last report. Backlogs remain reasonably healthy, though two builders noted that their backlogs are being depleted at a rapid pace. Half of our contacts do not expect any near term improvement in business conditions, while others are much more positive. One builder noted that he is beginning to notice a sense of urgency to expand on the part of some of his industrial customers. We heard widespread reports of increased prices for building materials, with most contractors expecting continued upward pressure. These price increases are eroding already narrow margins. Two general contractors noted that they reduced payrolls and may lay off additional employees if business does not improve. Subcontractors continue to cope with very difficult industry conditions.

Consumer Spending. Reports from retailers indicate that post-holiday sales were on or ahead of plan and were generally higher than year-ago levels. Cold-weather apparel is selling particularly well, and purchases of select high-ticket items were better than expected. A few of our contacts reported that the low- to mid-market segments still face considerable stress. Looking forward to the second quarter of 2011, retailers expect transactions to rise on a year-over-year basis, with several anticipating low to mid-single digit gains. We heard several reports about increasing prices from vendors, which were attributed to a rise in the cost of agricultural commodities and labor issues in Asia. Accordingly, some retailers are considering raising their prices, especially for apparel and food products. Inventories are in line with demand. Some of our contacts plan to increase capital spending during 2011 for new stores, distribution centers, and e-business expansion, with a corresponding rise in payrolls.

Most auto dealers reported that new vehicle purchases dropped slightly in January when compared with December levels, while on a year-over-year basis, vehicle purchases rose moderately. Looking forward, dealers expect 2011 sales trends to improve over those seen last year. A few of our contacts noted an increase in leasing activity. Reports on new car inventories were mixed. Used vehicle inventories are somewhat lean, with upward pressure on prices. We heard two reports about banks beginning to loosen credit requirements for vehicle purchases. Dealers are waiting for more details from automakers before committing to capital investments in their facilities, with some dealers reporting that they are better prepared financially to make

these investments. Little change in staffing levels is expected during the next few months.

Banking. In general, bankers reported that commercial loan demand was stable or showed modest growth since our last survey. Some bankers commented that demand is strongest from health care providers, small manufacturers, and energy companies. On the consumer side, conventional loan demand remains soft, although a few of our contacts told us that they are seeing a modest pickup. Direct and indirect auto lending continues to show strength, while reports on the use of home equity lines of credit were mixed. Interest rates for business and consumer credit were generally stable. Most of our contacts said that activity in the residential mortgage market has slowed (refinancings and new-purchase originations) due to rising interest rates and seasonal factors. Core deposits continue to grow, with most of the growth occurring in nonmaturing products. The credit quality of businesses and consumer applicants was characterized as stable to improving, while delinquency rates were trending down across most portfolios. Staffing levels have shown little change during the past few weeks. Selective hiring is expected during 2011.

Energy. Reports indicate that oil and gas output from conventional wells was fairly steady during the past six weeks, with little change expected in the near term. Leasing activity for Marcellus and Utica shale in eastern Ohio continues to expand, but few drilling permits have been issued. Spot prices for natural gas were flat, while wellhead prices paid to independent oil producers showed a modest increase. Coal production has been fairly steady since our last report, with little change anticipated in the near term. Prices for steam and metallurgical coal rose slightly. We heard several reports of a small rise in equipment and material costs, which was attributed to increasing commodity prices. Payrolls are expected to remain at current levels during the next few months.

Transportation. Reports on freight transport volume were mixed. Several contacts said that January's seasonal volume decline was greater than expected due to unusually severe winter weather. Looking ahead, carriers expect that markets will continue to recover and that sales growth in 2011 will be somewhat stronger than year-ago levels. Almost all of our contacts reported rising prices for diesel fuel, some of which were passed through to customers via a surcharge. Nonetheless, rising fuel prices continue to erode margins. Capital outlays are expected to rise during 2011 to replace aging equipment. However, the amount spent will be dependent on the availability of financing. Hiring thus far has been for replacement only, but two of our contacts noted that they are considering hiring additional drivers to add capacity. Slight wage pressures are emerging due to a growing problem with driver turnover and a tightening of the driver pool.

FIFTH DISTRICT-RICHMOND

Overview. The Fifth District continued to experience modest improvement across most sectors since our last report. Manufacturing activity picked up some momentum, bolstered by solid shipments and orders. Our non-retail services indexes improved, albeit at a slightly slower pace than earlier. The tourist industry enjoyed increased bookings. Bankers reported rising loan demand along with improved credit quality. Both residential and commercial real estate contacts noted some gains from still-weak levels. In contrast to these positive reports, the agricultural sector was held back by adverse weather and the retail sector experienced softer sales. District employment improved somewhat. Prices were up only moderately from our last report. Commodity prices, however, moved significantly higher. While most sellers were not passing through cost increases yet, many expected to begin raising prices later this year.

Manufacturing. Manufacturing activity continued to advance at a healthy pace in January and February. An aluminum extrusion manufacturer reported broad strength in demand for semi-finished metals, which are often an early indicator of increasing manufacturing activity. An auto-parts supplier said that new orders at his plant remained high and had increased to the point where finished goods inventories were below desired levels. He mentioned that raw material and component suppliers had started to have availability issues due to worldwide demand (especially from China and India). A custom fabricator reported that his company was seeing acceleration in business and was also experiencing very competitive pricing in the market place. Several textile manufacturers to whom we spoke indicated that, while orders had strengthened considerably, raw materials prices were rising markedly, with no way for them to pass along the increase to their customers due to competitive pressures. Our latest manufacturing survey also indicated that prices of raw materials increased notably over the last month, while prices of finished goods were up more moderately.

Retail. Retail sales generally softened since our last report, although a few businesses noted flat sales or an uptick toward the end of February. Sales fell at apparel stores, auto dealers, appliance stores, and retail computer stores. In central Virginia, an executive from a hardware chain reported that sales were down, matching reports that we received from retail/wholesale building suppliers in Maryland and South Carolina. Contacts at department stores reported flat sales. In contrast, an auto dealer in the Tidewater area of Virginia said sales were “on the upswing.” A West Virginia dealer told us that new car sales grew more rapidly in recent weeks. He noted that his service shop was also gearing up to meet increased demand for repair and maintenance of older cars. Finally, a few food and pharmaceutical wholesalers that we polled also reported faster growth in revenues. Retail prices grew somewhat more quickly in recent weeks, according to surveyed merchants, but many retailers anticipated a jump in price growth in the six months ahead. Retail wages rose, as more companies reported giving raises. A few executives and managers were apprehensive about their exposure to higher costs of healthcare benefits.

Services. Revenues rose moderately at most services-providing firms, according to most District contacts. Executives at healthcare organizations cited normal seasonal demand for medical attention related to the flu, except in North Carolina, where some providers reported that demand for healthcare related to the flu was up notably from seasonal norms. Financial services businesses also reported somewhat stronger demand; a Richmond, VA contact remarked that the stock market is “giving folks courage,” but he noted rising food and energy costs held down activity. Accounting and other business-to-business firms also reported an uptick. Average wages were flat at services firms and current price growth was mild, according to survey responses, but price growth was expected to accelerate over the next six months. An executive at a payroll service in West Virginia indicated that his prices will go up slightly in 2011, but noted that “times are still a little rough out there.”

Finance. Loan demand in the District continued to improve in recent weeks. Several contacts reported that small business lending in particular had increased, with much of the demand coming from capital improvement needs. Demand from medium and large firms was mixed, with some bankers stating that both were requesting more loans, while other lenders’ gains were limited to medium-sized businesses. Much of the demand from large businesses was for mergers and acquisitions. A banker in North Carolina noted a marked pick-up in consumer borrowing, mostly with respect to credit card usage, but added that many consumers were paying down debt. A loan officer in Richmond noted a sharp increase in home repair loans. However, several lenders around the District commented on the limited amount of mortgage activity—both for new homes and refinancing. West Virginia continued to lag, with one area banker reporting that loan demand was weak, and the high rate of repayments made sustaining loan volumes difficult. Most bankers were encouraged by recent improvements in credit quality, with several noting that the number of problem loans had declined. Another lender stated that healthy businesses in his area were starting to have more confidence in the recovery and had come back for loans.

Real Estate. Real estate activity improved slightly from low levels since our last report. Most realtors indicated that sales were about the same or up slightly, although an agent in the D.C. area said that the number of home sales had dropped during the last six weeks. Realtors across the District noted an increase in foot traffic, but reports of sales price changes were mixed. A real estate agent in Northern Virginia stated that prices continued to slip in February albeit less than a month ago. In contrast, an agent in the D.C. area reported that the median price was up moderately at the end of 2010. One contact said that the slight increase in mortgage rates had caused some buyers to act before rates rose higher. Sales activity varied by price range around the District, with most contacts indicating that sales were concentrated at the low end of the price range (although a contact stated that sales at the upper end of the price range were doing much better in his area). While several Realtors indicated that they had not seen any change in the proportion of distressed sales, contacts in Richmond and Greensboro noticed an

increase in short sales and foreclosures during the past six weeks. Realtors generally were optimistic that housing sales would gradually strengthen over the next few quarters and prices would trend up slightly.

Commercial real estate experienced broad-based, but moderate improvement across the District over the last six weeks. Many contacts cited an uptick in activity leading to the closing of office, industrial, and retail deals. A Realtor in central Virginia stated that the increase in demand for suburban office space had real depth for the first time in years, although downtown demand remained weak. Several real estate management firms reported a growing demand for warehouse space. A Realtor on the Atlantic Coast noted that national retailers were expressing renewed interest in expanding space (and even hiring). And, a developer in West Virginia noted that further weakening of the local economy was holding back the local market, but conditions had not deteriorated in recent months. Prices of properties and leasing rates generally remained unchanged, according to contacts, due to continuing high vacancy rates.

Labor Markets. Temporary employment agencies gave generally optimistic reports on recent demand for workers and were upbeat about future demand. A Richmond agent noted that more of her company's clients were finding permanent jobs, and she was optimistic about strengthening demand for workers in the near future. Similarly, the branch manager of a temp agency in Raleigh reported that several manufacturing customers had hired his clients for full-time positions. Moreover, a Hagerstown agent mentioned that his firm was hearing more optimism from their customers than in the recent past. He said that, "The recovery does not have a full head of steam yet, but it is clear that there is certainly more demand in many sectors of the economy." Nonetheless, several agents continued to report weak demand over the past six weeks, but they expected demand to improve over the next six months.

Tourism. Contacts reported generally strong bookings during recent weeks, wrapping up the winter season on a high note. A Baltimore hotel general manager indicated that leisure group bookings were up and guests were returning to the lounge and restaurant; previously, visitors were cutting costs by eating at the coffee shop. In Virginia, the manager of a resort and conference center reported that sales of season ski passes nearly doubled compared to last year, and he noted that his organization was able to raise rates this year "with no resistance." A western North Carolina hotelier reported solid bookings for the weekend just before Valentine's Day, drawn in part by a widely attended event nearby. This is the off season for Mid-Atlantic beach rentals; however, a contact there reported that advance rentals rose since our last report, pushed by "value-added" incentives, such as price guarantees. The contact indicated that tourists were still dining out, but were more likely to use coupons, and that some high-end restaurants were "feeling the pinch." However, a West Virginia contact reported flat growth compared with a year ago, and he noted that customers waited to book until the last minute, as they monitored weather reports—thus, forfeiting any advance booking discounts. Looking ahead, most contacts expected a slowdown during the early spring "shoulder season."

Agriculture. Colder-than-normal temperatures coupled with dry weather conditions throughout much of the region limited field work, hindered crop development, and caused farm income to decrease since our last report. In North Carolina, continued cold weather slowed field work, and freezing conditions and cold temperatures challenged livestock producers in Virginia and West Virginia. In many instances, livestock producers secured water sources by breaking ice in order to water their cattle. In addition, below normal temperatures in Virginia slowed development of winter wheat, although small grain crops in West Virginia were reported as looking better. Results of our recent agricultural credit survey indicated that income projections weakened somewhat as a result of the volatility in commodity prices and input costs, and that farmland values were below the previous quarter and year-ago levels.

SIXTH DISTRICT – ATLANTA

Summary. According to reports from Sixth District business contacts, economic conditions continued to improve at a modest pace in January and early February. Most retailers contacted stated that adverse weather had affected the positive sales trend seen at the end of last year. The hospitality industry experienced moderate growth as hotel occupancy and bookings increased, most notably in Florida. Weakness persisted throughout the District in both residential and commercial real estate. Manufacturers cited growth in new orders along with plans to increase production in the near term. Transportation firms remarked that freight shipments remained stable. Credit conditions improved for segments not related to residential construction and real estate. Labor markets continued to recover at a slow rate, with most businesses maintaining a preference for hiring temporary rather than permanent employees. Some businesses indicated limited plans to pass costs through to consumers in an effort to increase their margins from unusually low levels, recognizing that they may have to reverse course if there is significant buyer push-back.

Consumer Spending and Tourism. Most District merchants reported that retail activity moderated in January and early February following better than expected holiday sales at the end of 2010. In addition, many cited bad weather conditions as having contributed to the reduction in traffic and sales. Retailers mentioned that they would not be adjusting inventories in response to the higher than expected sales at the end of last year. The majority expressed that they will continue using lean inventory management. The outlook among retail contacts for the next few months remained optimistic. District vehicle sales improved from low volumes witnessed a year earlier.

Overall, leisure and business travel increased moderately compared with the previous year. Hotel occupancy and convention bookings were up slightly in many locations despite adverse weather conditions. The strongest gains were reported in Florida, where international visitors increased noticeably. Cruise activity remained healthy as well. Restaurants also noted a modest increase in business as the economy and consumer confidence improved. The outlook among District hospitality contacts for the upcoming months continued to be positive.

Real Estate and Construction. District homebuilders reported slow growth in new home sales for January and early February, while buyer traffic weakened compared with late last year. The majority of homebuilders stated that construction activity was below the year-ago level. Some homebuilders noted rising material costs which they have been unable to pass

through because of continued downward pressure on home prices. The outlook for sales growth over the next several months improved slightly from our last report, but the overall level of sales are expected to remain very low.

Residential brokers in the District indicated that existing home sales remained at low levels in January and early February. However, brokers noted that sales exceeded the year earlier level, largely driven by gains in Florida. Outside of Florida, some contacts suggested that adverse weather had dampened sales. Brokers continued to notice downward pressure on home prices from short-sales, REO's, and pending foreclosures. The outlook for sales growth over the next several months improved from previous reports, but total sales are expected to remain low.

Nonresidential construction activity remained at low levels during January and early February. Most commercial contractors said that the environment was little changed since the end of last year. The majority of contacts expect construction activity to remain at low levels this year.

Manufacturing and Transportation. Since December, District manufacturers experienced strong growth in new orders, while production levels increased moderately. Reports showed that the majority of respondents plan to increase production levels in the short term even as many manufacturing firms are experiencing higher input prices. District trucking firms noted both stronger demand and a firming of shipment prices; however, they also indicated that they have been facing increasing fuel costs and extremely adverse weather conditions, which have slightly affected overall activity. Trucking firms also anticipate capacity to remain tight as seasonal demand for shipments increase. District railroad companies reported that volumes remain solid for coal, automotive parts, and container imports. Many railroad contacts noted that higher fuel costs were successfully being passed through as surcharges.

Banking and Finance. District banking contacts reported an increase in mortgage applications in January and early February; most of those attributed the increase in number of applications to refinance activity and lower interest rates. The majority of bankers stated that mortgage lending standards have increased in recent months; while a few bankers reported elevated standards remained unchanged. Small businesses related to construction and real estate in particular, described worsening credit conditions, with many indicating that they either did not receive the amount of credit requested or that they refused the offered credit because of unfavorable terms. Small businesses outside of construction and real estate reported improving credit conditions at community and regional banks.

Employment and Prices. Labor markets across the District continued to recover slowly. Many businesses stated that their hiring plans favor leaving employment levels unchanged or to increase them slightly. Among those firms who plan to increase employment, the major factors driving their decisions are expectations of higher sales growth and right-sizing staff levels that were excessively decreased. District contacts maintained a preference for hiring temporary staff.

Some firms reported plans to pass more of input cost increases through to their consumers as they try to restore margins from unusually low levels. However, most indicated that markups remained below what they considered to be normal. A majority of businesses anticipate rising materials and benefits costs over the next year. A number of contacts, particularly those in manufacturing, noted some concern about the impact of rising commodity prices.

Natural Resources and Agriculture. Contacts along the Gulf Coast continued to express concern that the lower pace of drilling permit issuance and additional rig inspections would stifle future energy production and investment. Regional crude oil inventories have declined from unseasonably high levels in November as cooler weather and holiday travel boosted fuel consumption. Although drilling activity remains well below pre-oil spill levels, the number of rigs operating in the Gulf of Mexico has gradually crept up since October 2010.

Most areas of the District continued to be affected by varying degrees of drought. Cold temperatures negatively affected many vegetable crops in Florida. The outlook for the region's key agricultural commodities - including poultry, cotton, and soybeans - has been brightened by higher prices driven by strong global demand and tight supplies.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District continued to increase in January and February, though at a pace not quite as strong as during the previous reporting period. Nonetheless, contacts' expectations for growth in 2011 improved. Consumer spending increased at a slower pace, while the pace of business spending was steady. Manufacturing production expanded at a more moderate pace, and construction was again subdued. Credit conditions continued to improve. There was some pass-through of higher commodity prices to downstream prices, and District farmers continued to benefit from higher prices for agricultural commodities.

Consumer spending. Consumer spending increased in January and early February, but at a slower pace than during the previous reporting period. Promotions and sales continued to drive spending, but retailers also noted signs of improving consumer demand, including an increase in sales of luxury goods such as jewelry. Sales of some big-ticket items like electronics and appliances also improved after weaker than expected holiday sales. The pace of auto sales held steady at a relatively high level. Dealers remained optimistic pointing to pent-up demand in some market segments, improvement in the availability of auto financing even for lower quality borrowers, and increases in demand for new and luxury vehicles.

Business spending. Business spending continued at a steady pace. Contacts reported some additional strength in demand for equipment coming from agriculture and the energy industry. Spending on structures was more limited, but contacts also expected it to increase slightly over the course of the year. Inventories were little changed, although some manufacturers and agribusinesses were increasing stocks in anticipation of higher commodity prices. Retailers indicated that inventories remain in a comfortable range given the current pace of sales. Hiring picked up some. Manufacturers continued to add to payrolls, but again cited difficulty in filling certain skilled positions. Retailers also noted plans to increase hiring. A large staffing firm reported solid growth in billable hours for both industrial and office and clerical positions. They also noted that both temporary-to-permanent job transitions and direct hiring of permanent employees inched up further.

Construction/real estate. Construction activity was again subdued. However, contacts anticipated an uptick in residential construction in 2011, particularly for multi-family properties where apartment builders were receiving financing and development contracts for new construction. In addition, single-family home construction, especially in uncompleted existing

subdivisions, was also expected to begin to slowly increase. Activity in the residential real estate market was up slightly, and the pace of foreclosures slowed. Home prices were little changed, while residential rents were reported to be rising. Private nonresidential construction was flat, but builders noted a slight pick-up in activity for both office and industrial properties. Commercial real estate conditions continued to slowly improve. Contacts indicated that vacancy rates were flattening out, but some downward pressure on commercial rents remained.

Manufacturing. Manufacturing production expanded at a more moderate pace in January and early February. Orders, however, continued to be strong, and backlogs were noted to be rising. Several contacts also indicated that suppliers were facing challenges in keeping up with demand, particularly for industrial metals and heavy machinery. The steel, automotive, and heavy equipment industries continued to be sources of strength. A contact reported that active capacity in the steel industry was nearly fully utilized, but steelmakers remained cautious about bringing back on line currently idle capacity. Manufacturers of fabricated metals also reported strength in production and new orders. An automaker noted that sales had been better than expected in January, and an increase in production plans for the first half of the year may be needed as inventories remain lean. Demand for heavy machinery and trucks increased, with rental companies adding to fleets and end-user demand also on the rise. A building supplies manufacturer indicated that shipments currently were down, but that they expected an increase in shipments this year for the first time since 2005. A contact in the home appliance industry also reported lower shipments in January, but expected a bounce back in February.

Banking/finance. Credit conditions continued to improve in January and early February. With market interest rates rising, financing costs increased, but corporate credit spreads for a number of large firms in the District were slightly improved. Competition for commercial and industrial loans continued to be fierce, and contacts noted an increased presence of large banks in small business lending. Demand for business and consumer credit increased. Much of this continued to be refinancing of existing debt, but core loan demand was noted to be slowly rising. Credit line utilization also picked up, as working capital needs increased. While delinquencies remained elevated, loan quality continued to improve, albeit at a slower pace than during the previous reporting period. Several contacts noted that the banking sector seems to be on its way toward balance sheet repair with earnings improving, and may be starting to turn the corner on lending. Credit availability is beginning to improve for most loan types, although the bulk of lending is still going to the most high quality borrowers.

Prices/costs. Cost pressures increased in January and early February. Manufacturing contacts noted that increases in prices for industrial metals, such as copper and steel, and other raw materials were beginning to be passed on to customers. Prices for agricultural commodities like corn, wheat, dairy, hogs and cattle also moved higher, as did most energy costs, although ample supply continued to hold the price of natural gas at historically low levels. Contacts cited a combination of strong global demand, particularly from Asian markets, and tight supplies as factors behind the recent rise in commodity prices. Retailers reported higher wholesale prices, and expected that some pass-through would be necessary this year to avoid further squeezing margins. The construction industry, however, continued to experience downward pressure on prices despite higher raw material costs. Contacts also noted higher costs from increases in state corporate taxes and unemployment insurance, while wage pressures remained moderate.

Agriculture. Last fall's harvest ended up being smaller than previously estimated. Moreover, stocks of corn were lower than predicted. Input costs for crop production moved up over the winter. District crop farmers were, however, in a strong financial position, as most of the fall harvest had been sold at high prices. Corn and wheat prices increased during the reporting period, while soybean prices changed little. More acres of corn are expected to be planted this year than last. Farmers reportedly also planned to expand acres under tillage a bit by clearing fence rows and wooded acres. Margins for dairy and livestock producers strengthened as dairy, hog, and cattle prices rose more than feed costs did.

Eighth District - St. Louis**Summary**

The economy of the Eighth District has expanded modestly since our previous report. Manufacturing activity decreased, while activity in the services sector continued to increase. Retail and auto sales in January and early February increased over year-earlier levels. Home sales continued to decline across the District, and commercial real estate conditions remained slow. Overall lending at a sample of large District banks saw little change during the fourth quarter of 2010.

Consumer Spending

Contacts reported that retail sales in January and early February were up, on average, over year-earlier levels. Half of the retailers saw increases in sales, while 25 percent saw decreases and 25 percent saw no changes. About half of the respondents noted that sales levels met their expectations, 33 percent reported that sales were below expectations, and 17 percent reported that sales were above expectations. About 38 percent of the contacts noted that their inventories were too high, while 21 percent reported that their inventories were too low. The sales outlook among the retailers for March and April was mostly optimistic. About 58 percent of the retailers expect sales to increase over 2010 levels, while 12 percent expect sales to decrease and 30 percent expect sales to remain unchanged.

Car dealers in the District reported that sales in January and early February were up, on average, compared with last year's sales. About 71 percent of the car dealers surveyed saw increases in sales, while 12 percent saw decreases and 17 percent saw no changes. One-third of the car dealers noted that used car sales had increased relative to new car sales, while 5 percent reported the opposite. Also, about 30 percent of contacts reported an increase in sales of low-end vehicles relative to high-end vehicles, while less than 5 percent reported the opposite. About 46 percent of the car dealers surveyed reported that their inventories were at desired levels, while 25 percent reported that their inventories were too high. The sales outlook among the car dealers for March and April was generally optimistic. Almost 92 percent of the car dealers expect sales to increase over 2010 levels.

Manufacturing and Other Business Activity

Manufacturing activity has decreased since our previous report. Several manufacturers reported plans to close plants and reduce operations in the near future, while a smaller number of contacts reported plans to open plants or expand operations. Firms in the wood products, automobile parts, aircraft, and primary metal manufacturing industries reported plans to decrease operations and lay off workers. Additionally, a major firm in tire manufacturing announced plans to close a plant in the District and lay off workers. In contrast, firms in the medical equipment, automobile parts, and primary metal manufacturing industries announced plans to expand existing operations and hire new employees.

The District's services sector continued to improve since our previous report. Contacts in the legal services, commercial printing, entertainment, support activities for air transportation, and business support services industries reported plans to expand existing operations in the District and hire new employees. In contrast, contacts in government services and religious organizations announced plans to decrease operations and lay off workers.

Real Estate and Construction

Home sales continued to decline throughout most of the Eighth District. Compared with the same period in 2010, January 2011 home sales were down 6 percent in Louisville and Little Rock, 1 percent in St. Louis, and 8 percent Memphis. However, 2010 single-family housing permits increased in the majority of the District metro areas compared with 2009. Permits increased 3 percent in Little Rock, 4 percent in St. Louis, and 2 percent in Memphis but decreased 9 percent in Louisville.

Commercial and industrial real estate market conditions throughout the District remained soft. Compared with the third quarter of 2010, fourth-quarter 2010 industrial vacancy rates decreased in Little Rock and St. Louis, increased in Memphis, and remained unchanged in Louisville. During the same period, suburban office vacancy rates increased in Louisville, Memphis, and Little Rock, while they remained constant in St. Louis. The downtown office vacancy rates increased in Louisville, Little Rock, and Memphis but decreased in St. Louis. Commercial and industrial construction activity continues to be slow throughout most of the District. Contacts in Louisville reported that demand for commercial

properties remains low. Contacts in northwest Arkansas reported that banks are very cautious in considering new development projects. Contacts in Louisville noted no new suburban construction completions, while contacts in St. Louis reported limited commercial construction. Contacts in Memphis, St. Louis, and Louisville expect speculative construction activity to remain weak. Nevertheless, contacts in south-central Kentucky reported that a few plant expansions are in progress, and a contact in western Kentucky noted some commercial regional projects are under way.

Banking and Finance

A survey of senior loan officers at a sample of large District banks showed little change in overall lending activity during the fourth quarter of 2010. During this period, credit standards for commercial and industrial loans remained unchanged, while demand for these loans ranged from unchanged to moderately weaker. Credit standards for commercial real estate loans tightened somewhat, while demand for these loans was moderately weaker. Meanwhile, credit standards for consumer loans remained unchanged, while demand for these loans ranged from about the same to moderately stronger. Credit standards for residential mortgage loans ranged from unchanged to tightened somewhat, while demand for these loans was moderately weaker.

Agriculture and Natural Resources

Annual figures for 2010 in the District's agricultural sector showed a shortfall of 2 percent or more in corn, soybean, rice, hay, and tobacco yields, compared with 2009. Cotton and winter wheat yields, however, rose by 2 percent or more from 2009 to 2010. Meanwhile, total production of corn, soybeans, sorghum, winter wheat, hay, and tobacco for 2010 was at least 4 percent lower than in 2009. In contrast, total production of rice increased by 18 percent and total production of cotton increased by 50 percent. Coal production for the District states at the end of January 2011 was 7 percent higher than a year ago.

NINTH DISTRICT—MINNEAPOLIS

The Ninth District economy continued to grow moderately since the last report. Increases were noted in consumer spending, services, manufacturing and agriculture, while energy and mining were stable at high levels. Commercial construction showed a slight but surprising increase in activity. Tourism and commercial real estate were level, and residential construction and real estate decreased. Labor markets continued to strengthen moderately, and wage increases were modest. While increases in prices for final goods and services remained relatively subdued, a number of input price increases were noted.

Consumer Spending and Tourism

Consumer spending increased. A major Minneapolis-based retailer reported that same-store sales in January were up almost 2 percent compared with a year earlier. A Minnesota-based restaurant chain noted that January sales were up about 5 percent compared with a year ago. A domestic auto dealer in Minnesota reported that sales of new and used cars were strong. However, a Minneapolis area mall noted that traffic in January was down somewhat from a year ago.

Overall winter tourism activity was on par with last year. A Minnesota travel company noted that leisure travel to warm weather destinations was up substantially from a year ago; however, another Minnesota travel company reported only modest gains in winter activity. Winter tourism was about the same as last year in western South Dakota. A tourism official in the Upper Peninsula of Michigan described activity there as soft.

Construction and Real Estate

Commercial construction showed unexpected signs of growth. January commercial building permits increased from the same month a year earlier in Fargo, N.D., and Sioux Falls, S.D. A large software company recently announced plans to open a technology center in suburban Minneapolis. Residential construction activity decreased. The value of permitted units fell 7 percent in Minneapolis-St. Paul in January from a year earlier, largely driven by reductions in multifamily construction; single-family home building remained stable. Residential permits fell in value in Sioux Falls and increased slightly in Fargo during the same period.

Commercial real estate markets were flat overall. In Minneapolis-St. Paul, office vacancy remained high, but the market saw slight positive absorption in the second half of 2010. Retail vacancy declined, and the medical market was flat, while industrial space saw its highest vacancy rates in more than 10 years. Contacts in Fargo, N.D., and Billings, Mont., reported that

commercial real estate markets there were stable. Residential real estate activity decreased. January closed sales increased 10 percent in Minneapolis-St. Paul from a year earlier, but the median sales price fell 10 percent. Home prices increased in parts of eastern Montana last year, but luxury- and tourism-driven markets in the western part of the state remained very weak.

Services

Professional business services firms reported increased demand for their services since the start of 2011. About half of the professional service firms responding to a mid-February Minneapolis Fed ad hoc survey saw increased demand since the start of the year, while only 9 percent saw declines in demand. A contact from a large accounting firm reported higher than normal activity.

Manufacturing

Manufacturing output was up since the last report. A January survey of purchasing managers by Creighton University (Omaha, Neb.) showed increases in manufacturing activity in Minnesota, South Dakota and North Dakota. Forty-six percent of the manufacturers responding to the Minneapolis Fed's ad hoc survey saw increased demand since the start of the year, while 23 percent saw declines in demand. Several Minnesota metal fabricators noted a solid increase in orders since the last report. A Minnesota manufacturer of drill bits said production increased. A semiconductor chip facility in Minnesota plans to triple production this year. A steel component plant in North Dakota recently expanded production due to increased capital investment. However, a steel fabricator shut down in western Wisconsin, and a manufacturer in the Upper Peninsula reported that severe weather delayed a construction expansion.

Energy and Mining

Activity in the energy and mining sectors remained stable at high levels since the last report. Mid-February oil exploration activity was nearly flat since early January. Wind-energy development projects continued since the last report. District mining commodity prices remained robust, and District mines were operating at near capacity. A company increased exploratory metal drilling activity in western Montana.

Agriculture

Agricultural conditions continued to strengthen. Prices for most District agricultural commodities increased since the last report, including wheat, corn, soybeans, cattle, hogs and poultry; however, dairy product prices decreased recently. The Minneapolis Fed's fourth-quarter (January) survey of agricultural credit conditions indicated farm incomes increased over the previous three months, and almost two-thirds of respondents predicted increases in the next quarter. A decision by the U.S.

Department of Agriculture to allow planting of genetically modified sugar beets came as a relief to District beet producers who had already purchased large quantities of the seeds. Heavy snowfall this winter combined with a warm snap in February led to concerns about potential flooding in parts of North Dakota and Minnesota.

Employment, Wages and Prices

Labor market conditions continued to strengthen moderately. In the Upper Peninsula of Michigan, an energy plant project at a paper mill will create about 170 new jobs. Demand for temporary manufacturing workers was well above year-ago levels at a Minnesota employment services company; strong candidates for permanent positions were recently getting job offers more quickly than a few months ago. Minnesota initial claims for unemployment benefits decreased 5 percent in January compared with a year earlier. In contrast, a telecommunications company recently announced plans to lay off 250 employees, and a defense contractor laid off about 250 employees in Minnesota. In North Dakota, a wind power manufacturer announced 150 layoffs.

Wage increases were modest. Bank directors noted just a few examples of wage increases across a number of industries. However, some manufacturers in South Dakota noted recent increases in wage pressures.

While increases in prices for final goods and services remained relatively subdued, a number of input price increases were noted. According to the Minneapolis Fed's ad hoc survey, 30 percent of respondents indicated that they raised prices for final goods and services since the start of the year, while 47 percent noted that nonlabor input prices increased. A bank director reported that farmers and ranchers were facing higher costs for fertilizer, feed, fuel and chemicals compared with a year ago. Prices for copper, aluminum and some steel products increased since the last report. Food commodity prices also recently rose; however, some food companies in the District reported difficulty passing these increases through to retail prices.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy expanded further in January and early February, though inclement weather dampened consumer spending. Retailers reported that severe winter storms contributed to limited sales but they expected a rebound in coming months. District manufacturers reported solid growth since the previous survey period and anticipated strong future activity. Little improvement was noted in residential real estate; however, commercial real estate showed further signs of stabilization. District banks reported a decrease in overall loan demand, increased deposits, and stable loan quality. In agriculture, poor growing conditions and tight supplies raised commodity prices. Hiring and production expanded in the energy sector along with drilling activity in key oil and gas liquids fields in the District. Retailers and manufacturers noted added pressure on profit margins from increased materials costs. There was little evidence of wage pressures across District labor markets.

Consumer Spending. Many District retailers reported that unusually severe winter storms limited sales activity in January and early February. Several retail contacts noted temporary layoffs and reduced hours for workers in response to the inclement weather. Overall, sales generally remained at or above year-ago levels and most retailers remained optimistic that sales would increase in coming months. While auto sales softened due to severe winter storms, dealers were satisfied with inventory levels and expected a sharp rebound in sales in the near future. Most tourism contacts reported decreased visitor counts compared with month- and year-ago levels, and respondents indicated severe winter weather as a possible deterrent. However, mountain ski resorts reported strong results due to the heavy winter snowfall. Hotel operators reported that occupancy rates remained flat during the reporting period while room rates continued to decline. Most lodging respondents expected no change in occupancy rates and continued declines in room rates in the coming months.

Manufacturing and Other Business Activity. District manufacturing activity continued to expand, while high-tech services and transportation activity slowed somewhat. Factory production and orders expanded solidly, and backlogs rose moderately. Inventories of both raw and finished goods increased slightly. Many manufacturers hired additional workers and anticipated hiring gains will remain solid in the coming six months. Concerns persisted about rising input costs, but an increasing number of factory operators reported an ability to raise

finished goods prices. Planned capital expenditures at factories were up, although most contacts reported adequate capacity. Sales at high-tech firms softened in the latest reporting period, especially those related to federal stimulus spending. High-tech contacts nonetheless noted strength in sales related to data centers and e-commerce. Transportation firms reported weak activity in the current reporting period but remained optimistic that conditions would improve in the coming three months. Several transportation contacts cited rising fuel costs and difficulty finding qualified drivers as possible constraints on future growth.

Real Estate and Construction. Residential real estate activity remained sluggish in January and early February, while the commercial real estate sector showed further signs of stabilization. The residential real estate sector remained hampered by falling transaction volumes and increased inventories of unsold homes. Weak sales of both new and existing homes put further downward pressure on home prices, but real estate agents anticipated a surge in home sales this spring due to seasonal buying patterns. Although housing starts were flat, residential builders remained upbeat and reported a rebound in traffic. Commercial real estate activity stabilized with increased sales and leasing activity, reduced vacancy rates, and increased absorption. Nonetheless, further declines were reported in rents and selling prices and developers' access to credit remained constrained. Mortgage lenders noted a continued decline in mortgage loan demand and refinance activity due to rising mortgage interest rates. In addition, mortgage lenders noted a decrease in average loan size and higher average down payments.

Banking. Bankers reported weaker loan demand, increased deposits, and an improved outlook for loan quality in the recent reporting period. Overall loan demand decreased slightly as demand for commercial and industrial loans, residential real estate loans, and consumer installment loans decreased while commercial real estate loan demand edged up. For the fourth straight survey, credit standards remained unchanged in all major loan categories. Loan quality was mostly unchanged from the previous period, while the outlook for loan quality over the next six months improved. Bankers reported increased deposits with gains in transaction and money market accounts.

Energy. The energy sector expanded further in January and February as oil and gas firms reported increased hiring and production. Natural gas production remained strong despite high inventory levels and only modest seasonal gains in natural gas prices. Exploration in the District shifted further toward crude oil and natural gas liquids, particularly in New Mexico and the Niobrara oil shale formation in Colorado and Wyoming. Producers anticipated continued soft

natural gas prices and steady crude oil prices in the next three months, despite concerns over international instability. A number of energy contacts cited continued competitive pressures for drilling equipment and workers as constraints on future drilling activity, but access to capital was viewed as adequate. Wyoming coal production remained well above year-ago levels. Higher corn prices trimmed ethanol profits in recent weeks.

Agriculture. Poor growing conditions and tight supplies lifted commodity prices and farm incomes since the previous survey period. While winter wheat crop conditions deteriorated due to dry, cold weather, recent snowfall eased drought conditions in the southern Plains. Heavy snowfall also limited grazing and prompted some supplemental cattle feeding. Tight global supplies supported high crop prices, boosting farm income. Cattle and hog prices strengthened with higher demand, but rising feed costs limited profits. Operating loan demand weakened as farmers used cash to pre-pay for crop inputs. Capital spending rose briskly. District contacts reported collateral requirements held steady and ample funds were available for farm loans at historically low interest rates. Farmland prices surged with rising farm income and robust demand for farmland, with the strongest gains reported in Nebraska and Kansas.

Wages and Prices. Input prices continued to increase in many industries, but selling prices and wages generally remained steady. Contacts expected sustained increases in input prices, and most expected higher selling prices in coming months. Manufacturers reported persistent increases in raw materials prices and anticipated the upward trend to continue. Increasing commodity prices put upward pressure on food costs, particularly livestock products. Restaurants reported tighter margins as menu prices remained flat in the face of rising food costs; an uptick in fuel costs contributed to rising building materials prices. Firms reported little evidence of wage pressures across the District and anticipated little to no wage pressure in the near future. A limited number of firms expected to hire seasonal workers in the next three months, but few have considered wage increases to attract qualified candidates.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy expanded at a moderate pace over the past six weeks. Activity in the energy sector remained strong, and staffing firms reported continued high demand for their services. Reports from the manufacturing and non-financial service sectors were mostly positive. Loan demand increased slightly. Conditions improved somewhat in the commercial real estate sector, while activity in the housing market remained sluggish. Severe winter weather stressed crops and ranching conditions and dampened retail sales.

Prices Price pressures increased somewhat since the last report. Many contacts reported higher input prices for fuel, metals, and other commodities, and some shipping and manufacturing firms said they had increased selling prices in response. Retailers reported increases in the price of food and sundry items, while cement producers noted that they had announced selling price increases for spring 2011. Some service-providing firms noted continued downward pressure on bill rates, while staffing firms said they were successful in raising fees for direct hire placements.

The price of West Texas Intermediate (WTI) crude oil fell from \$90 per barrel in January to about \$86 in early February. Despite severe winter weather across much of the country, natural gas prices remained weak. Most petrochemical prices held steady during the reporting period, with the exception of increases in polypropylene and polystyrene prices.

Labor Market There were increased reports of hiring activity compared with the previous reporting period. Staffing firms reported continued strong demand for their services. Some primary metals, fabricated metals, transportation, lumber, food, and high-tech manufacturers reported moderate employment increases. Accounting firms noted audit and tax work had prompted seasonal hiring. A few contacts in auto sales, legal, accounting and energy services expect to expand payrolls this year. In addition, retailers reported offering full-time positions to some workers that had been hired for the holidays, while others were laid off. Wage pressures remained minimal. There were, however, reports of higher wages at some firms in the accounting, airline and aviation industries, and high-tech manufacturers reported slight increases in wage pressures for high-skilled positions.

Manufacturing Overall demand for construction-related products was flat over the past six weeks, although there were a few reports of an uptick in demand related to remodeling, commercial construction and multifamily housing activity. Contacts expect conditions to remain unchanged or improve slightly this year.

High-tech manufacturers reported that growth in orders and sales picked up slightly. Demand was particularly strong from Asia and for products such as smart phones and other hand-held devices. Inventories were at or near desired levels. Most respondents expect demand to continue to increase at the current rate or at a slightly faster pace over the next six months.

Overall conditions in the paper products sector were largely unchanged since the last report. Aviation and aircraft parts manufacturers reported continued solid demand, and outlooks are for moderate growth over the next few months. Sales of emergency vehicles picked up and demand is stronger than year-ago levels, according to contacts. Demand for food products improved over the past month, and the three-month outlook for sales was optimistic.

Domestic demand for petrochemicals was stable or rose moderately, and margins were robust during the reporting period. Growth in exports of polyethylene and polypropylene slowed, while exports of caustic soda stayed strong. Domestic orders for PVC used in residential and commercial construction remained weak, but exports were solid according to contacts.

Consumers have scaled back consumption of gasoline and diesel due to high prices. Refinery utilization rates have declined from 88 to 85 percent and margins are weak.

Retail Sales Severe winter weather adversely affected sales activity. Excluding the week of inclement weather, sales were flat to slightly higher compared with the previous reporting period. Discount retailers have seen year-over-year sales growth in the mid- to high-single digits, although about half of the increase in sales is due to higher gasoline prices. Contacts at discount retail firms noted sales of apparel and domestic goods strengthened recently. Overall inventories were at desired levels. The environment remains competitive but the outlook is for continued moderate growth in sales.

Demand for automobiles held steady, apart from severe winter weather that significantly reduced sales in early February. Demand is gradually picking up as business and consumer confidence improves. One contact noted that most of the improvement has been at the retail level and fleet sales have lagged. Dealer inventories are being kept in line with the pace of sales. Contacts remain modestly optimistic and expect sales to rise moderately this year.

Services Staffing firms reported continued strong demand, particularly for high-skilled IT positions. Other areas of strength were transportation services, insurance, healthcare, and banking. Direct hiring activity picked up pace, and outlooks remained optimistic.

Demand for accounting services has improved since the last report. One large firm noted that activity is strengthening across all service lines, particularly for consulting and transactional work. Despite the recent improvement in business, pricing remains competitive. Demand for legal services has picked up, and contacts expect reasonable growth in activity this year.

Reports from transportation services contacts were mixed, but mostly positive. Intermodal transportation firms noted cargo volumes declined due to weaker demand from international clients. Growth in small parcel shipments improved during the reporting period, and volumes were above year-ago levels. Railroad shipments and container trade volumes increased moderately since the last report. Airline traffic was steady over the past six weeks. Contacts noted that demand has improved from a year ago, particularly for business travel, and the outlook is for modest growth in sales in the near term.

Construction and Real Estate Eleventh District housing activity remains sluggish, but contacts were slightly more optimistic in their outlooks. While comparisons with year-earlier levels are difficult because of the 2010 homebuyer tax credit, some contacts said traffic had picked up recently and that buyers were becoming more serious. Respondents noted tighter credit standards continued to hinder first-time homebuyer sales, although some realtors and builders noted sales in the higher-priced, move-up market had improved.

Commercial real estate activity improved slightly since the last report. Contacts said that while the sector remains fragile, there are signs that a recovery is beginning to take place. Office and industrial leasing rental demand edged up and contacts noted several deals in the works in Texas, with high-tech and energy-related firms leading the expansion. Commercial property sales remained at low levels, but some contacts noted a pickup in investor interest. Nonresidential construction remained subdued since the last report, and contacts do not expect a significant turnaround in the near term.

Financial Services Financial firms report a slight uptick in overall loan demand. Commercial and industrial loan activity remains mixed, but demand for residential real estate loans has picked up from very low levels. Loan pricing is highly competitive, and contacts at community banks report increased competition from larger banks moving “down market” in order to attract new business. Credit quality appears to have stabilized and in some cases is improving. Increased cost of regulatory compliance is restraining lending activity, especially for community banks. Outlooks have improved slightly due to improving credit quality, some deposit run-off, and increased optimism regarding the overall direction of economic activity.

Energy Drilling activity remains strong. Growth in the rig count has slowed as the disparity between oil and natural gas prices continues to shift activity away from natural gas and toward oil-directed drilling. Unconventional shale is the dominant factor driving U.S. drilling activity. Expectations are for the rig count to flatten out or decline slightly but margins are expected to remain strong through most of 2011. The rig count in the Gulf edged up during the reporting period, and there is little optimism about the short-term revival of activity in the Gulf as permitting remains slow for shallow and deepwater drilling.

Agriculture Exceptionally dry conditions along with extended periods of below-freezing temperatures adversely affected the vegetable crop in Texas, greatly stressed livestock and necessitated increased supplemental feeding. Demand for agricultural commodities was strong. In particular, the relatively high price of oil spurred demand for corn for ethanol production. Prices of agricultural commodities remained high, and rose further for corn, cotton, soybeans and wheat. High costs for corn and feedstock has led to a slight decline in feedlot profitability.

TWELFTH DISTRICT—SAN FRANCISCO**Summary**

Economic activity in the Twelfth District posted further gains during the reporting period of mid-January through mid-February. Despite notable price increases for assorted raw materials and commodities, overall price pressures for final goods and services remained modest, as did wage gains. Sales of retail items and services expanded relative to seasonal norms. District manufacturing activity continued to grow at a solid pace overall. Agricultural producers reported robust sales, and providers of energy resources continued to expand on net. Activity in District housing markets remained very subdued, and demand for commercial real estate stayed weak overall. Reports from District banking contacts indicated modest increases in loan demand and increased interest in lending to smaller businesses.

Wages and Prices

Price increases for final goods and services remained modest overall during the reporting period. Further increases were noted for an assortment of raw materials and commodities, such as oil, grains, cotton, lumber, and various metals, along with finished apparel and other products sourced from overseas. However, stiff competition among domestic firms, combined with continued low levels of demand, generally precluded pass-through of cost increases to final prices for retail goods and services, with the notable exceptions of gasoline and groceries. Looking ahead, contacts in most sectors expect that prices for their products will increase modestly over the next six months, with larger gains expected for food.

Upward wage pressures generally were quite modest, held down by high unemployment and limited demand for new employees in most sectors. Scattered reports pointed to continued downward wage pressures, but contacts more generally reported modest planned wage increases for 2011, in the aftermath of widespread wage freezes over the past few years. Wage gains remained most pronounced for workers with specialized technical skills, especially in information technology fields.

Retail Trade and Services

Retail sales continued to improve relative to seasonal norms. Although consumers remained oriented toward spending on necessities and lower-priced options, the reports pointed to a gradual shift back toward discretionary spending. Discount retail chains and traditional department stores alike reported modest increases in sales, with inventories that were close to desired levels. By contrast, conditions remained challenging for sellers of furniture and major

appliances, and grocers reported that their pace of sales slowed somewhat. Demand for new automobiles continued to strengthen, although higher-than-expected sales in December left some dealers with depleted inventories and an inability to fully meet demand in January. Sales of used vehicles remained robust.

Demand for consumer and business services improved further overall. Sales rose significantly for providers of technology services, spurred in part by rising demand for digital media services used for mobile communication devices. Demand for transportation services continued to expand, and suppliers of energy services reported additional growth in deliveries to households and businesses. Customer traffic rose further for restaurants and other food-service providers. Contacts noted ongoing improvements in business travel and tourism activity. By contrast, demand remained largely flat for providers of health-care services and also professional services, such as law and accounting.

Manufacturing

Manufacturing activity in the District showed further solid growth during the reporting period of mid-January through mid-February. Demand continued to expand for manufacturers of semiconductors and other technology products, with reports pointing to robust sales, high levels of capacity utilization, and inventories near targeted levels given the pace of sales. For makers of commercial aircraft and parts, modest increases in new orders combined with an existing order backlog to keep production rates high. Demand grew further for metal fabricators, with ongoing order backlogs and extended lead times noted. Utilization rates at petroleum refineries were above their levels from twelve months earlier, despite elevated gasoline inventories. Demand remained weak for manufacturers of wood products.

Agriculture and Resource-related Industries

Demand was robust for agricultural products and improved on balance for natural resources used for energy production. Sales and orders continued to grow for assorted crops and livestock products, although revenue growth has been partly offset by rising input costs, particularly for fertilizer and livestock feed. Rising export sales boosted activity somewhat for timber companies. Strong global demand continued to support an increase in oil extraction activity during the reporting period, and extraction activity for natural gas remained largely stable.

Real Estate and Construction

Demand for housing in the District appeared to be little changed from the previous reporting period, and demand for commercial real estate remained at very low levels. The pace of home sales continued to be feeble throughout the District. In response to sluggish sales, new home construction has

remained at depressed levels, although a few reports pointed to tentative signs of a pickup in the planning phases for new construction. Demand for rental space continued to expand in some areas, eliminating prior downward pressure on rents in some cases. Conditions in commercial real estate markets generally remained weak, as vacancy rates stayed at elevated levels in many parts of the District. However, further improvements in leasing activity, with tenants increasingly committing to longer-term leases, were noted for some of the District's major markets.

Financial Institutions

Reports from District banking contacts indicated that loan demand was up somewhat compared with prior reporting periods. Although businesses reportedly remained cautious in regard to their capital spending plans, demand for commercial and industrial loans rose a bit. Demand for consumer credit grew modestly as well. A few reports indicated that lenders' willingness to extend credit to small and medium-sized businesses improved in recent weeks, which respondents attributed primarily to perceived improvements in the outlook for existing business plans. Nonetheless, lending standards for consumer and business lending remained relatively restrictive. Venture capital financing showed further signs of improvement, with contacts noting ongoing increases in investor interest and IPO activity.