Summary of Commentary on ____________________

Current Economic Conditions

By Federal Reserve District

May 2012
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Summary*

Reports from the twelve Federal Reserve Districts suggest overall economic activity expanded at a moderate pace during the reporting period from early April to late May. Activity in the New York, Cleveland, Atlanta, Chicago, Kansas City, Dallas, and San Francisco Districts was characterized as growing at a moderate pace, while the Richmond, St. Louis, and Minneapolis Districts noted modest growth. Boston reported steady growth, and the Philadelphia District indicated that the pace of expansion had slowed slightly since the previous Beige Book.

Manufacturing continued to expand in most Districts. Consumer spending was unchanged or up modestly. New vehicle sales remained strong and inventories of some popular models were tight. Sales of used automobiles held steady. Travel and tourism expanded, boosted by both the business and leisure segments. Demand for nonfinancial services was generally stable to slightly higher since the last report, and several Districts noted strong growth in information technology services. Conditions in residential and commercial real estate improved. Construction picked up in many areas of the country. Lenders in most Districts noted an improvement in loan demand and credit conditions. Agricultural conditions generally improved, and spring planting was well ahead of its normal pace in most reporting Districts. Energy production and exploration continued to expand, except for coal producers who noted a slight slowing in activity.

Wage pressures overall were modest. Hiring was steady or increased slightly, and contacts in a number of Districts reported difficulties in finding qualified workers, particularly those with specialized skills. Price inflation remained modest across Districts, and overall cost pressures eased as the price of energy inputs declined. Economic outlooks remain positive, but contacts were slightly more guarded in their optimism.

Manufacturing

Manufacturing continued to expand, and most Districts reported gains in production or new orders. The only exceptions were from the Philadelphia, Richmond and St. Louis Districts, where factory activity was mixed or had softened slightly. Demand appeared to be the strongest

* Prepared at the Federal Reserve Bank of Dallas and based on information collected on or before May 25, 2012. 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.
in auto and steel manufacturing. Reports from the Cleveland, Atlanta, Chicago, and St. Louis Districts noted vibrant activity for auto manufacturers, and an auto maker in the Atlanta District reported plans to add a third shift to keep up with increased global demand. Steel manufacturing remained robust, with contacts in the Chicago District reporting the highest capacity utilization rates since the end of the recession and firms in the St. Louis and Minneapolis Districts noting plans to upgrade or expand operations. Producers of semiconductors and high-tech equipment saw continued growth in orders in the Dallas and San Francisco Districts. Aircraft and parts makers noted further increases in orders according to reports from Boston, Richmond, and San Francisco, while the Dallas District reported steady demand. Demand for agricultural and construction equipment remained strong according to the Chicago District report, and industrial machinery manufacturers in the Philadelphia District noted gains. Food producers in the Philadelphia and Dallas Districts noted solid demand for their products, and pharmaceutical manufacturers in the San Francisco District reported robust activity. Activity at refineries and petrochemical manufacturing facilities expanded further. Demand for construction-related products improved in the Dallas District, and orders for lumber and wood products increased in most reporting Districts.

Hiring at manufacturing firms was mixed, but manufacturers in some Districts reported difficulty finding qualified workers such as welders. Capital spending plans in most reporting Districts were positive. Ongoing capital investments and plans for future capacity expansions were reported by various manufacturers in the Chicago, St. Louis, Minneapolis, and Kansas City Districts. Firms in the Cleveland District noted spending on capital outlays was on track, while producers in the Philadelphia District reported a decline in future spending plans since the previous report. Manufacturers’ outlooks were positive in the Philadelphia, Cleveland, Chicago, and Kansas City Districts; however, contacts in a number of Districts were concerned that a slowdown in Europe and domestic political uncertainty may affect future business conditions.

**Consumer Spending and Tourism**

Retail spending was flat to modestly positive in nearly all Districts. Firms in the Richmond, Chicago, and Minneapolis Districts noted sales increased at a more modest pace than in the previous report, as unseasonably warm weather and an earlier Easter holiday had shifted sales into the previous reporting period. By contrast, warm spring weather continued to boost
traffic and sales for retailers in the Philadelphia and Cleveland Districts. Sales of household goods increased in the Boston and Kansas City Districts, and gains in apparel sales were reported by the Boston and Dallas Districts. Sales of big ticket items declined in the Richmond and Chicago Districts, and there were a few reports of high fuel prices affecting consumer spending and sentiment. Inventories were generally at desired levels and were being managed carefully. Outlooks were optimistic, and retailers in several Districts expect modest sales growth in the near term. In particular, contacts in the Kansas City District expect stronger sales growth in coming months, while some retailers in the Chicago District plan to add inventories in expectation of higher back-to-school sales compared with last year.

Automobile sales generally remained strong, although the pace of growth moderated in a few Districts. Sales of used vehicles held steady, and a slight decline in prices was reported. Inventories of popular vehicles were tight. Outlooks were positive and contacts across several Districts expect steady growth in sales in coming months.

Reports from most Districts pointed to continued strength in travel and tourism, bolstered by both the business and leisure segments. Favorable spring weather spurred tourism in the Minneapolis and Kansas City Districts. Time-share rentals were strong in the Richmond District, and foreign visitors boosted activity in Florida as well as at theme parks in the Philadelphia District. Restaurants and food service contacts in the Richmond, Kansas City, and San Francisco Districts noted increased sales. Ticket prices and attendance at Broadway theaters strengthened in the New York District, boosting revenues to well above year-ago levels. Business travel picked up in the Boston, New York, and Atlanta Districts, and convention bookings were strong according to the Atlanta District. Hotel bookings were strong in the Boston and New York Districts, and solid gains or high levels of occupancy and room rental rates were noted by hotel contacts in most reporting Districts. Atlanta’s report noted that hospitality-related projects were underway in several areas of the District.

**Nonfinancial Services**

Demand for nonfinancial services was generally stable to slightly stronger since the previous report. Several Districts noted some growth in information technology services, including Boston, Richmond, Kansas City, Dallas, and San Francisco. Solid demand for healthcare services was also noted by some Districts.
A few Districts said that activity expanded for professional and business services, such as accounting, engineering, advertising, and legal services. The Boston District noted some renewed activity in the financial sector, although engineering and accounting demand remained weak. The Richmond District said architectural engineering firms reported stronger revenues, and Minneapolis noted strength in engineering near oil producing areas, in part due to planned future construction. Responding firms in the Dallas District noted strength in legal services and accounting.

Advertising sales picked up in the Philadelphia and San Francisco Districts, and air travel improved in the Dallas and San Francisco Districts. Freight transportation volumes moved higher in Cleveland, and railroad contacts in the Atlanta District noted continued growth. However, Kansas City’s report noted flat activity in transportation, and the Dallas report noted mixed results from shipping firms.

**Real Estate and Construction**

Activity in residential real estate markets improved in most Districts since the previous report. Several Districts noted consistent indications of recovery in the single-family housing market, although the recovery was characterized as fragile. The apartment market continued to improve, and multifamily construction increased in several Districts.

Home sales were above year-ago levels in most areas of the country and several Districts noted sales had improved since the previous report, although some noted that the pace was well below the historical average. In particular, the New York, Cleveland, and Richmond Districts noted a pickup in the pace of distressed sales. Residential brokers and some builders in the Philadelphia, Atlanta, and Dallas Districts said home sales were exceeding expectations. Contacts in the Richmond District said homes were being snapped up as investors become more confident in the housing recovery, and the Atlanta report noted stronger sales to cash buyers and investors in Florida. Chicago said more sales had multiple offers. Apartment rental markets improved in the New York, Atlanta, and Dallas Districts. One contact from the New York District noted rising apartment rents have made buying more attractive, contributing to a slight uptick in sales.
Most Districts reported that home inventories decreased. Overall, home prices remained unchanged in many Districts, although reports were mixed. There were a few reports that sellers were lowering asking prices, leading to downward pressure on housing prices.

New home construction increased in a number of Districts, including Cleveland, Atlanta, Chicago, St. Louis, Minneapolis, and San Francisco. Contacts in the Philadelphia District said demand for new home construction eased slightly. Builders in Kansas City noted housing starts were down, but they expected an increase in the next three months. The Boston, Atlanta, and Chicago Districts reported an increase in multifamily construction, and the Minneapolis District noted numerous multifamily projects were in the pipeline.

Commercial real estate conditions improved in most Districts, and there were some reports that commercial construction picked up. Commercial leasing remained steady or increased in most Districts including Philadelphia, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. The New York, Dallas, and San Francisco Districts noted growth in the technology sector was prompting the absorption of commercial space. Energy activity was helping boost demand for space in the Richmond and Dallas Districts. Boston’s relatively strong commercial market continued to generate robust investor interest, although commercial property sales in the New York District remained slow.

Build-to-suit construction was noted by the Boston and Philadelphia Districts. The New York District reported new office development projects in the pipeline, and St. Louis’ report noted a pickup in speculative industrial projects. The Richmond District said expansion in manufacturing led to a pickup in construction. Reports from the Cleveland and Chicago Districts suggested an increase in hotels and higher education projects, and a New York contact noted that interest in luxury hotel development increased. Outlooks were positive overall, although there were a few reports of increased uncertainty from still unknown U.S. fiscal changes and Europe’s debt situation.

**Banking and Finance**

Most Districts that commented on lending noted steady or slightly stronger loan demand. Small and medium-sized banks in the New York District reported the most broad-based increase in loan demand since the mid-1990s. Several bankers in the Richmond District said the volume of small business loan applications was markedly higher. Drivers of business loan demand
included energy, healthcare, and commercial real estate. Several Districts noted increased
demand for capital spending loans.

Reports on mortgage lending generally indicated slow improvement. The New York
District noted stronger mortgage lending, although growth in refinancing eased. The Cleveland
District indicated strong mortgage demand and a shift from home refinancing to new purchases.
The Richmond District cited continued improvement in mortgage demand, although refinancing
still dominated much of the mortgage lending. The Atlanta District said that more applicants had
ample cash for down payments or enough equity in their homes to meet refinancing
requirements. Demand for commercial real estate loans was generally reported to be stronger.
Districts reporting on consumer lending noted steady demand, with some strength in auto loans.

A number of Districts, including Cleveland, Atlanta, Chicago, Dallas, and San Francisco,
said loan pricing remained quite competitive. New York District respondents noted a decrease in
spreads of loan rates over the cost of funds, particularly for commercial mortgages. Lending
standards were relatively unchanged to slightly easier across Districts and loan types. Bankers
reporting on deposit growth indicated that deposits were steady or continued to increase. Credit
quality remained solid, and there were several reports of improved loan quality. Most District
banks said loan delinquencies continued to decline.

Agriculture and Natural Resources

Agricultural conditions generally improved since the previous report. Rainfall provided
much needed moisture in several parts of the Richmond, Minneapolis, and Dallas Districts.
Spring planting and crop emergence was well ahead of the normal pace in most reporting
Districts, and corn producers in the Chicago District were hopeful that this promising start may
result in a record harvest. Producers in the St. Louis, Kansas City, and Dallas Districts noted that
the winter wheat crop was in fair-to-good condition. Farm incomes rose further in the
Minneapolis and Kansas City Districts, and the San Francisco District reported further sales
growth for most crop and livestock products. Producers in the Chicago and San Francisco
Districts expressed concern that persistent dry conditions may undermine crop production.
Although prices of most agricultural commodities declined, hog and cattle prices rose since the
previous report.
Energy activity remained robust, with drilling expanding further in the Cleveland, Atlanta, Minneapolis, Kansas City, and Dallas Districts. Atlanta’s report noted that increased investment in transportation infrastructure was needed to accommodate the recent rise in domestic and Canadian energy production. Exploration and production continued to shift away from dry-gas to wet-gas or oil-directed drilling in the Dallas and San Francisco Districts in part due to low natural gas prices. Firms in the Kansas City District said they would like to expand payrolls but reported difficulty finding engineers and experienced field workers. Iron-ore and rock mining continued to expand at a strong pace according to the Minneapolis District report. In contrast, demand for coal slowed in the Cleveland and St. Louis Districts, and contacts noted that production was below year-ago levels. Limestone quarries in the Minneapolis District continued to report sluggish demand.

**Employment, Wages and Prices**

Hiring was steady or showed a modest increase. Reports of hiring were most prevalent in the manufacturing, construction, information technology, and professional services sectors. Staffing firms in the Cleveland and Dallas Districts noted a pickup in orders, and contacts in the Boston and Philadelphia Districts reported steady growth in orders. Demand for temporary workers rose in the Richmond District, and several employers in the Minneapolis District noted a tightening labor market. New York’s report indicated that demand for staffing services was mixed, but manufactures and other business contacts expect hiring to pick up in coming months. Atlanta’s report pointed to positive employment growth in the District. Hiring remained limited in the Chicago District, and modest employment increases were noted in the San Francisco District report. There were widespread reports that firms continued to face difficulty finding highly trained or skilled workers—especially in information technology, engineering, and manufacturing fields—and manufacturers in the Chicago District said they were easing job requirements or using interns to fill open positions. Overall upward wage pressures continued to be fairly modest. There were reports of slight wage increases for skilled workers in the Boston, Cleveland, Minneapolis, Dallas and San Francisco. Contacts in the Philadelphia and Chicago Districts noted increases in healthcare costs.

Price inflation was modest across most areas of the country. Reports from several Districts, including New York, Philadelphia, Richmond, Chicago, Minneapolis, and Dallas
indicated selling prices were stable or had softened somewhat since the previous report. Some Districts, including Philadelphia, Chicago, Minneapolis, Dallas, and San Francisco noted cost pressures eased as the price of energy inputs fell. However, Atlanta’s report noted some firms had implemented price increases tied to previous increases in energy costs, and firms in the Kansas City District noted higher input and final goods prices.
FIRST DISTRICT – BOSTON

Economic activity in the First District continues to expand, with contacts in most sectors citing steady growth. Commercial real estate markets show slight improvement and residential real estate contacts are finally mentioning recovery, albeit fragile. Respondents in this round rarely mention prices or pricing. Except for software and IT services where growth continues to be relatively strong, few firms are doing substantial hiring. The outlook is generally for more of the same, although a couple of manufacturers mention making contingency plans for a potential slowdown.

Retail

First District retail contacts continue to report that business is good, consumer sentiment seems to be improving, and fears have moderated about higher gasoline prices hurting spending in other categories. Recent year-over-year sales changes range from near zero to gains of 2 percent to 5 percent. One firm, buoyed by recent performance, has increased its overall 2012 sales forecast from 2.5 percent to 4.5 percent. Consumer spending is particularly strong on adult clothing, household goods, and items related to home improvement and maintenance. While respondents have generally positive expectations for their businesses in 2012, some express concern that U.S. economic growth will be hampered by domestic political tensions and potential negative spillovers from a European economic downturn.

The travel and tourism sector in the First District continues to report strong results. Both business and leisure travel have been up in the first four months of the year, and advance hotel bookings continue to be robust. For 2012, the industry expects a 9.5 percent increase over 2011.

Manufacturing and Related Services

According to our contacts, the manufacturing sector in the First District continues to grow, but the outlook remains guarded, perhaps slightly more so than in recent months.

Thirteen of 16 responding firms report growing sales in the most recent period compared with a year earlier. Idiosyncratic factors appear to be driving the weakness for one firm with declining sales; contacts at the other two could not point to anything other than general macroeconomic weakness as explanations. A manufacturer of industrial motors mentions the situation in Europe while noting that sales are soft in all regions in which the company sells.

The jury is still out on the role of weather in the evolution of business conditions over the last six months. Several of our contacts cited mysterious sales declines at various points which then corrected themselves. A manufacturer of hoses was off 30 percent at the end of March but then had his “best April ever” and was back on plan by this round. He hypothesizes that winter goods weren’t selling, so big retailers—hoping to avoid having to store snow shovels and road salt over the summer—lacked space until recently to put spring goods on the shelves.

Dramatic changes in U.S. energy supply continue to affect economic activity, according to manufacturing respondents. A chemical manufacturer in the First District said that the low current price
of natural gas is restructuring the world chemical industry. For the first time in decades, chemical firms are building ethylene crackers in the United States.

All contacts doing business in Europe report that the European manufacturing economy is near or in recession. Asia continues to be relatively strong, but one contact in the industrial membrane business said that “the best and most stable market” is the United States.

Fourteen of 16 contacts report that their firms are hiring; nonetheless, they remain reluctant to add to headcount in any significant way. One manufacturer of parts for the aerospace and automotive industry says that, despite strong growth, they have relied mostly on temporary workers to increase production. A contact in the industrial distribution business reports that if conditions do not improve, they will cut staff. Another firm which makes industrial motors says they are drawing up contingency plans for a serious decline which include a hiring freeze.

**Software and Information Technology Services**

New England software and information technology firms report mixed results through May, with some experiencing continued growth and others citing modest slowdowns. Nevertheless, year-over-year revenue increases in the first quarter remained largely in the high-single digits, bolstered by steady demand from the healthcare and banking sectors and a resurgence of activity in the manufacturing sector. Indeed, one contact closed a deal in Q1 with a very large electronics manufacturer, and another reports that deal sizes are beginning to grow, particularly in their software solutions for manufacturers and distributors. Other contacts, however, assert that clients in general remain reticent to finalize large deals.

Most contacts report increases in headcount, with many continuing to add sales and marketing personnel as well as billable consultants; by contrast, one firm recently completed a realignment in which headcount was reduced by approximately 5 percent. Capital and technology spending and selling prices have gone largely unchanged since February. Looking forward, New England software and IT contacts remain cautiously optimistic, with upticks in activity and strong pipelines tempered by concerns regarding the U.S. economy and the European debt crisis.

**Staffing Services**

New England staffing firms report that business conditions are largely unchanged since the previous conversations in February, with year-over-year revenue increases in the first quarter generally in the mid-single digits. Labor demand from the healthcare and manufacturing sectors is steady, and one contact reports renewed activity in the financial sector. However, demand for office and clerical assistance has weakened in recent weeks, and activity in the construction, civil engineering, and accounting sectors remains anemic. The number of permanent and temporary-to-permanent placements continues to grow, albeit modestly; however, two contacts say this trend is likely attributable to their own internal efforts to boost permanent hires, rather than improvements in labor-market fundamentals.

Regarding labor supply, candidates with high-end skill sets such as nurses, mechanical and electrical engineers, and software developers remain difficult to find; one contact reports that this
shortage of qualified labor has begun to put upward pressure on pay rates. Other contacts, however, say that increases in bill rates and pay rates, if any, are due almost entirely to changes in their business mix. The outlook among New England staffing contacts is generally consistent with that of three months ago, with most expecting their current rate of growth to continue or pick up through the end of the year.

**Commercial Real Estate**

According to contacts, commercial property markets in the First District remain in a holding pattern, with some signs of improvement. The strength of Boston’s commercial market continues to stand out within the region and nationally, making it the target of a tremendous amount of investor interest. Construction activity in Boston appears to be increasing—contacts report an uptick in large-scale build-to-suit construction activity for the first time in several years. However, the market is still not strong enough to warrant speculative construction. In Portland, construction activity has increased significantly from the last report, propelled by projects in the public, industrial office, and multifamily sectors. Elsewhere in the First District, construction activity is muted. Strict lending standards are still the norm District-wide.

Despite a recent uptick in showings, demand in the industrial sector remains flat across New England. Office leasing volumes throughout the District are unchanged from six weeks ago, and the retail sector continues to be quiet in New England. The outlook among contacts is that, barring significant macroeconomic turmoil, conditions should remain flat or improve slightly in the rest of the year.

**Residential Real Estate**

Residential real estate shows further signs of improvement in the First District as year-over-year increases in sales continued in April across the region. Contacts report steady increases in market activity, which they attribute to low interest rates and competitive prices as well as confidence in economic conditions. In the Greater Boston area, sales continue to increase while inventories fall to low levels, particularly in the condominium market. Some respondents say activity among first-time homebuyers has increased, reflecting continued affordability. Reports also indicate increased activity for homes in the mid-price range. Changes in median sales prices compared to a year ago vary across the First District, with some states experiencing modest gains and others observing moderate declines. Rhode Island, where the median sales price in April dropped almost 8 percent from a year earlier, faced the largest price decline in the region, but the drop was close to zero excluding distressed sales.

Though contacts characterize housing markets as recovering, they note that conditions remain fragile; in particular, with sales gains fairly well established, their concerns focus on the possibility of further price declines. Contacts expect the delicate recovery of housing markets to continue gradually; most anticipate modest gains in sales activity for the next several months and modest price changes, up and down. Respondents say declining inventory levels and increasing demand in Greater Boston may put upward pressure on prices there.
SECOND DISTRICT--NEW YORK

The Second District’s economy has continued to expand at a moderate pace since the last report. Labor market conditions have generally improved, and, on balance, contacts indicate they plan to add workers in the months ahead. Business contacts in a number of industries note a slowing pace of cost increases and mostly stable selling prices. Manufacturers report a pickup in business conditions. Tourism activity has been strong since the last report, while retailers and auto dealers indicate steady sales activity in April and May. Home sales activity has continued to increase gradually since the last report, though prices have generally been steady to somewhat lower. Rental markets remain strong, with rents rising due to tight inventory levels. New York City’s commercial real estate market has tightened slightly. Finally, bankers report widespread increases in loan demand, no change in credit standards, and continued broad-based declines in delinquency rates.

Consumer Spending

Retailers report that sales activity was mixed but generally steady in April and the first few weeks of May. One major retail chain reports that sales were running on plan and up modestly from a year earlier, with particular strength in home-related goods. However, another chain indicates that sales were slightly below plan and down considerably from this time last year, with weakness in home goods and fine jewelry. In general, New York City stores tended to outperform other stores in the District. Retail contacts in upstate New York report that sales in recent weeks have been brisk and on par with a year earlier, and note increased demand from Canadian shoppers. Retail prices continue to be mostly stable, though price declines are anticipated for fall-season apparel, due to the retreat in cotton prices. Inventory levels are well managed, and are reported to be at desired levels.

Auto dealers in upstate New York report that sales remained fairly brisk since the last report. Sales of new vehicles were up modestly from a year earlier in April and are seen remaining steady in May. Product availability is no longer a drag on sales, except for some of the most popular models. The used car market continues to be strong and prices remain elevated, although dealers in the
Buffalo area note some recent softening in prices at auction. Wholesale and retail credit conditions remain favorable and continue to improve.

Tourism activity has been quite robust since the last report. New York City hotels indicate that revenues were up roughly 10 percent from a year ago in April and May. This increase reflects both higher room rates and higher occupancy rates. Hotel bookings have been fairly broad based, but an industry contact notes that there has been a noticeable pickup in business travelers in recent months. Moreover, ticket prices and attendance at Broadway theaters increased in April and May; as a result, theater revenues were up considerably from a year ago.

**Construction and Real Estate**

Housing markets across much of the District have been mixed but, on balance, stable since the last report, while rental markets have continued to firm. The volume of apartment sales in New York City has been generally steady, with brisk activity at the top and bottom segments of the market but activity in the middle described as quiet. Home sales in northern New Jersey have continued to improve from a low level, but mainly due to a pickup in sales of distressed properties. Home prices in and around New York City are characterized as steady to declining slightly, in part because more distressed properties are coming to market. By contrast, real estate contacts in Western New York report robust sales activity and rising prices in recent months. Apartment rental markets in both New York City and northern New Jersey continue to firm, with tight inventories and rents continuing to rise. A major New York City appraisal firm notes that rising rents in the City continue to make buying more attractive, and credits this trend for the recent uptick in sales in the lower third of the market. Conditions in the outer boroughs have been somewhat softer than in Manhattan.

New York City’s office market has tightened slightly since the last report, although leasing activity has slowed in recent months. Office vacancy rates have edged down and rents have risen 7-8 percent from a year ago. However, a major commercial brokerage firm notes that demand for office space from the finance industry has softened considerably since earlier in the year. Some of this
recent softening has been offset by strong demand by technology firms, especially in the Midtown South area. There also continues to be a fair degree of leasing activity from businesses in the media, information, and legal sectors. Commercial property sales activity remains slow. There is a moderate amount of new office development underway, but most of it will not come on-line for another 12-18 months. In addition, a hospitality industry contact notes that interest in luxury hotel development in Manhattan has increased recently.

**Other Business Activity**

Contacts across the District, on balance, indicate that business activity has expanded since the last report. Manufacturers across New York State report a noticeable improvement in business conditions and a growing proportion of non-manufacturing contacts report increases in business activity. In addition, business contacts in manufacturing and other sectors note a slower pace of input price increases and steady to somewhat higher selling prices.

On balance, labor market conditions have continued to improve across the District since the last report. Moreover, both manufacturers and business contacts in other sectors say that they plan to increase hiring activity in the months ahead. However, a major New York City employment agency specializing in office jobs reports that hiring activity has been mixed since the last report, with bouts of starts and stops in hiring and some reluctance by firms—particularly in the finance sector—to commit to hiring new employees. Moreover, fewer job openings are available in part because the amount of job churn is still much less than normal. A financial industry contact reports that previously-announced major layoffs at large banks in the New York City area are ongoing and expected to continue.

**Financial Developments**

Small to medium-sized banks in the District report increased loan demand in all categories to a more widespread degree than at any time since the mid 1990s. The increase in demand was most prevalent for commercial loans and mortgages. Bankers also indicate increased demand for
refinancing but to a lesser extent than in recent months. Credit standards are reported to be little changed across all loan categories. Respondents note a decrease in spreads of loan rates over the cost of funds for all loan categories—particularly for commercial mortgages where over three in five bankers report lower spreads. Respondents also indicate some decline in average deposit rates. Finally, bankers again report widespread decreases in delinquency rates for all loan categories.
THIRD DISTRICT – PHILADELPHIA

Overall, business activity in the Third District continues to improve, but the pace has slowed slightly in most sectors since the previous Beige Book. Manufacturing activity has eased slightly, but most major manufacturing sectors continue to grow. After a strong first quarter, partially due to the unseasonably mild weather, retail sales slowed somewhat in April but appear to be gaining strength based on customer traffic in May. Although sales remain strong overall, motor vehicle dealers also reported softer sales in April. Third District banks report steadier growth in lending and continued strong credit quality since the last Beige Book. Demand for new home construction has eased off a bit, but brokers report stronger sales of existing homes. Several signs of improvement were cited by commercial real estate contacts. Overall, service-sector firms report continued growth. Price pressures have eased slightly in some sectors since the last Beige Book.

The outlook remains optimistic, but more firms readily noted the slow pace of the recovery relative to the sunnier views expressed in the last Beige Book. Manufacturers’ expectations for the next six months, although diminished, remain positive. Retailers continue to expect steady improvement. Auto dealers anticipate continued strong sales. Banking, real estate, and service-sector firms are slightly more optimistic but continue to plan for slow growth in 2012. In general, business plans reflect caution, and businesses have resumed a more realistic perspective on the limitations of the current recovery and the risks to its longevity.

Manufacturing. Since the last Beige Book, Third District manufacturers have reported virtually no change in shipments and just the slightest decline in new orders. Gains continue among the makers of food products, lumber and wood products, fabricated metals, industrial machinery, and instruments. Firms in the primary metals and electronic equipment industries report a fall-off in demand. According to various contacts, growth is attributed to warm weather, automotive demand, production returning from China, Marcellus Shale activity, and renewed customer optimism.

About eight out of 10 Third District manufacturers expect business conditions to improve or stay the same during the next six months – somewhat less optimistic than reported in the last Beige Book. Except for primary metals, optimism is present in all major sectors. Firms seem
relatively divided as to whether high energy costs are a concern, depending largely on their ability to pass the cost along to their customers. New to the list of concerns and uncertainties about the outlook is the increasing worry that political gridlock will lead to large cuts in defense-related production through sequestration. While caution remains, firms have reported a little more optimism as have their customers. However, manufacturers have expressed somewhat lower expectations of future capital spending and future hiring since the last Beige Book.

Retail. Third District retailers reported that the surprising early sales gains held up through March, then fell back some in April. Year-to-date, gains have remained positive through April. Sunny weather has continued to boost traffic in May; bus counts at outlet malls are nearly double last year’s level. Small businesses in less urban markets are struggling as consumers adjust to higher gas prices by cutting retail purchases. Retail contacts remain cautiously optimistic.

Auto sales in Pennsylvania shifted from strong in March to moderately strong in April. Very low borrowing costs for inventories have helped to support dealers’ profitability. A large New Jersey dealer reports that retail auto sales are off year-over-year through April but that fleet sales are strong. Profits are also off. The dearth of auto sales in recent years has created a slump for dealer service sales; they must compete harder to retain customers with aging cars that typically are taken to independent garages. The outlook for auto sales remains positive. Hiring remains spotty and depends on brands carried, fleet business, and local economic conditions.

Finance. Overall, loan volumes have continued to grow in the Third District since the previous Beige Book. While activity remains uneven, banks report increasing signs of a steady recovery. Loan demand continues to be strongest for inventories and capital equipment to manufacturers and for investments in the higher education, health care, and technology sectors, and in multifamily housing. Most contacts report solid credit quality.

Real Estate and Construction. Residential builders report some softening in May traffic and sales due to a combination of typical seasonal slowing and a drop-off from the atypically strong first-quarter sales. Construction crew members for one Pennsylvania builder are working 45 to 70 hours per week; the builder is hiring cautiously as the builder’s pace of activity slowly picks up. Residential brokers report “seeing genuine improvement”: Year-to-date sales
through mid-May exceed last year’s and are over plan. A broker reported that much of its workforce operates on a shortened week, and it will exploit this substantial excess capacity before hiring more staff. The outlook among builders and brokers remains positive.

Nonresidential real estate activity has been generally positive since the last Beige Book, with several contacts citing increased leasing activity throughout the District, including southern New Jersey. Despite ongoing demand, Philadelphia’s Center City office market has slowed a bit, as the bulk of existing class-A trophy space is now under agreement. Several contacts also cited a few large build-to-suit projects that have gone to bid and are awaiting approvals before construction begins. Other contacts noted reluctance among transportation contractors to hire more workers, given the uncertain future of public infrastructure funding due to the increasingly short funding horizon of the federal transportation authorization bill. The overall outlook for nonresidential real estate has brightened slightly since the last Beige Book.

**Services.** Third District service-sector firms have generally reported positive growth since the last Beige Book. Job postings have risen at area universities, local advertising sales have been strong, and area theme parks are attracting increasing numbers of foreign visitors (notably from China). Contacts note little recent change in defense-related activity; however, concerns are mounting that significant federal spending cuts on defense and civil contracts may result from sequestration or its alternative, political compromise. Employers continue to make liberal use of staffing firms; however, staffing contacts report that employers’ sense of urgency to fill specific slots is often low. Overall, service-sector firms retain a positive outlook for growth through the remainder of the year.

**Prices and Wages.** Price levels have eased slightly since the previous Beige Book and remain generally constrained. Industry contacts indicated that gas prices have stabilized and are expected to ease through the summer. Manufacturing firms report lower cost factors since the last Beige Book. Home builders anticipate cost increases for materials if activity picks up more quickly; however, the current gradual pace of recovery may allow suppliers to adjust without severe cost increases. Retailers and home builders continue to report tight margins. Contacts continue to report a lack of wage pressures, other than for medical benefits. House prices have stabilized in many areas for low-end homes but have fallen further for high-end homes.
FOURTH DISTRICT – CLEVELAND

Business activity in the Fourth District has grown at a moderate pace since the beginning of April. Manufacturers reported stable production, while residential and nonresidential construction showed moderate growth. Retail sales held steady, and auto dealers described April sales as generally good. Exploration and production in shale gas expanded, even as the demand for coal has slowed. Freight transport volume moved higher. And the market for business credit has strengthened.

Hiring continued at a modest pace across most industry sectors, although staffing-firm representatives reported that the number of job openings had increased for information technology and healthcare workers. Wage pressures are contained. Input prices were stable, apart from increases in building materials.

Manufacturing. New orders and production at District factories were mainly steady during the past six weeks, with a few reports indicating a weakening in orders from European customers. Nonetheless, a majority of our respondents said that output was above year-ago levels. The outlook by manufacturers has grown more positive since our last report, buoyed by a pickup in activity in the construction, energy, and transportation sectors. Manufacturers expect that this pickup will continue through the remainder of 2012. On balance, shipping volume by steel producers and service centers was stable. Demand is being driven mainly by the auto industry. Steel shipments are expected to follow their seasonal drop-off during the summer. However, several of our contacts expressed uncertainty about the extent to which markets will pick up in the fourth quarter. District auto production showed a moderate decline during April on a month-over-month basis, while increasing substantially from prior-year levels. Year-over-year increases were attributed mainly to the abatement of supply chain issues.

No change in capacity utilization was noted, with most producers running at or slightly below normal rates. Inventories were generally consistent with demand. Respondents citing rising inventories reported that they are manageable. Capital budgets remain on track; only one-third of our contacts said that they expect to increase outlays during the upcoming months, mainly for information technology upgrades or capacity expansion. Input costs were stable, with any upward pressure being characterized as modest. However, the majority of our respondents reported raising their product prices slightly, partly to recoup raw-material cost increases that they were unable to pass through in prior years. A few manufacturers reported hiring due to expansions in auto and steel plants; otherwise there was little change in payrolls. Wage pressures are contained.

Real Estate. Single-family home construction showed a moderate improvement during the past couple of months, and the majority of our contacts said that sales were significantly above year-ago levels. Contracts were almost all in the move up price-point categories. While builders are encouraged by year-to-date results, they are guardedly optimistic in their outlook.
We heard a few reports of builders raising new home prices, though margins are still tight. Reports indicated a broad-based rise in building material prices. One respondent told us that suppliers are raising prices because there is a perception that the housing industry is on a comeback. Year-to-date sales of existing single-family homes showed modest growth relative to prior-year levels across the eastern third of the District. Several of our contacts noted that sellers are becoming more realistic and flexible about asking prices. The appraisal process remains a major challenge.

Activity in nonresidential construction for small to medium-size contractors continued to strengthen and stands at a higher level than a year ago. Financing projects is getting easier, but banks still demand a substantial equity share on the part of the developer, and the amount of due diligence required has increased. Construction activity is broad based, driven by healthcare, higher education, hospitality, and retail. We heard several reports of downward pressure on rents for retail space, which was attributed to retailers looking for smaller footprints. Our contacts expect that business will continue to slowly improve as the year progresses. The majority of residential and commercial builders reported hiring a few people, but recruiting highly qualified candidates is difficult, especially for project managers. Top candidates are demanding higher wages.

**Consumer Spending.** Retailers reported that April sales held steady on a month-over-month basis, but increased by mid-single digits relative to year-ago levels. Contacts cited the unusually warm, dry spring weather as a factor for the pickup in sales across product lines. Nonetheless, several reports described middle-income households as stressed. One contact noted that his company is investing in the development of new products that would be more attractive to value-conscious consumers. All of our contacts anticipate that revenues during their next fiscal quarter will be above prior-year levels, mainly in the mid-single digits. Retailers cited upward pressure on vendor costs, which they attributed to elevated commodity prices and increased costs for packaging and off-shore labor. There was some reluctance to pass through rising costs to consumers. Inventories rose modestly, but they were described as manageable. Capital spending for the year remains on target, with a large majority of retailers expecting to increase outlays during the upcoming months. Monies will be used largely for technology enhancements, distribution facilities, and store remodeling. Little hiring is anticipated, except at new stores.

Auto dealers characterized new-vehicle purchases during the past six weeks as generally good, with commercial truck sales doing particularly well. Some slowing of passenger car sales was reported, which dealers attributed to a lack of incentives from the manufacturers and a small number of lease rollovers. On a year-over-year basis, transactions were higher. Most contacts are satisfied with their inventory positions. The outlook by dealers for the remainder of 2012 has grown more positive since our last report, although some dealers believe that total sales during
2012 will be slightly below prior-year levels. Purchases of used vehicles were fairly steady year-over-year—inventories are building and prices declined slightly. On the financing side, we heard two reports that banks are more willing to work with dealers. Leasing activity picked up. Dealers are investing in manufacturer-mandated facility upgrades and imaging programs. Hiring for sales and service positions continued, but at a very slow pace.

Banking. Demand for business credit is on the upswing. Bankers reported that loan pricing remains very competitive. Loan requests were broad based, with the primary drivers being commercial real estate, energy, and healthcare. Little change in consumer credit was noted. Products in highest demand were auto loans (direct and indirect) and revolving lines of credit. Consumer credit pricing held steady. In the residential mortgage market, demand was described as stable to very strong. A high percentage of applicants are looking to refinance, although a few bankers said that they are beginning to see a shift in applications from refinancing to new purchase. No changes were made to loan application standards; some respondents saw an improvement in the quality of loan applicants. Delinquencies were steady or declined, with several bankers citing a drop in credit card delinquencies. Core deposits rose. There was a slight increase in the number of new hires compared to a couple of months ago, but on balance, no change in payrolls is expected in the near term.

Energy. Conventional oil and natural gas production was stable, with little change expected in the upcoming weeks. Conventional drilling has slowed due to very low natural gas prices. Well-head prices for oil dropped slightly. The Ohio Department of Natural Resources has issued 119 Utica shale drilling permits since January 1 and 68 horizontal wells are currently being drilled in Ohio. Coal production during 2012 is expected to be slightly less than 2011 levels. Spot prices for metallurgical and steam coals declined. Production equipment and materials prices were flat. Capital spending is expected to hold at current levels or decline. Little change was seen in energy payrolls.

Transportation. Overall, freight transport volume moved higher. A couple of contacts did report a modest slowdown beginning in April, although they were uncertain if this was the beginning of a trend. Sectors driving demand include energy and transportation along with seasonal products. Volume is expected to continue growing at a moderate to strong pace for the remainder of the year. However, all of our contacts expressed concern about the regulatory environment and the negative impact it could have on potential growth. Costs associated with truck maintenance moderated, and diesel fuel prices have declined, although fuel surcharges remain in place. Many carriers negotiated rate increases as freight contracts came up for renewal. Capital spending for 2012 remains on plan. Outlays are allocated for replacement of aging units and adding capacity. We heard two reports about small carriers reducing the size of their fleets due to high replacement costs. Companies are hiring for replacement and capacity expansion. Wage pressure exists due to a tightening of the driver pool.
FIFTH DISTRICT–RICHMOND

Overview. Economic activity in the Fifth District improved modestly since our last assessment. Retail sales were sluggish, held back in part by weak big-ticket sales. Growth at services firms slowed, although tourism businesses reported strong demand. Bankers said that lending grew slowly, and much of the activity was refinancing. Residential real estate agents noted encouraging signs of improvement in housing sales, while commercial Realtors described leasing and construction activity as mostly flat to moderately up. Manufacturing reports were mixed, with auto and other transportation equipment-related producers continuing to do well, while other producers faced unchanged or weakening demand. District hiring activity varied, with some businesses reluctant to hire or unable to find qualified workers. Recent rainfall aided newly planted fields, but excess moisture in some areas delayed planting. Price increases—both paid and received—generally slowed.

Manufacturing. We received mixed signals on manufacturing activity since our last report. According to our latest survey, new orders and shipments were essentially unchanged in May, following solid expansion during the previous month. A producer of metal extrusions reported that, although his sales slowed a bit in April, demand in May picked up again. However, a producer of gas turbines said that economic problems in Europe led to fewer exports, and he expected to lay off ten percent of his employees this summer. Several manufacturers cited decreased government spending as the primary reason for recent cancellations of orders. A manufacturer of aircraft engines expected that cuts in defense spending would soon weaken government demand for his products, but private sector orders remained robust. A spokesperson at another aerospace manufacturing firm said that her business was expanding nicely, and she attributed the increase to strengthening demand for helicopters and gyroplanes. According to our latest survey, both raw materials prices and finished goods prices grew at a somewhat slower pace than a month ago.

Retail. Sales were tepid in recent weeks, after an early Easter pulled some holiday sales into March. Stores reported good Mothers Day sales, although foot traffic was lighter than normal for many retailers. Shopper traffic was unchanged since our last report and big-ticket sales declined, according to a recent survey. A central Virginia retail representative reported little stability in the market as customers exhibited "yo-yo spending" (i.e., up one month, down the next). Accordingly, retailers managed inventories tightly and were reluctant to make capital investments. A South Carolina grocer observed that customers were buying special sale items at different stores, rather than shopping at one store. In contrast, an executive at a chain of hardware stores noted that sales had improved at a slow-but-steady pace since the start of the year. Discount department store managers generally reported a pick-up in sales. For a few discounters, however, the opening of new competition kept sales flat. Automobile sales were also flat.
Most home improvement retailers reported a decline in sales in recent weeks. Retailers' prices rose at a somewhat slower pace since our last report.

**Services.** Revenues advanced more slowly at services firms since our last report. A building contractor stated that consumers were still avoiding big projects, but were increasingly looking for "more than a coat of paint," as homeowners improved their current homes rather than trying to sell. Several services providers, particularly architectural, engineering, and telecommunication firms, reported stronger revenues. A healthcare provider in Central Virginia reported that demand for in-patient services had flattened out a bit recently, partly due to an absence of influenza cases, but out-patient services were still growing. Several healthcare institutions reported that they were continuing capital spending projects, especially on computer technology, to meet federal requirements and guidelines. Non-retail services providers reported a mild up-tick in the rate of price increases.

**Finance.** Lending activity increased modestly across most segments of the market. On the commercial side, several bankers cited markedly higher volumes of small business loan applications and increased loan approval rates. One banker attributed the gains to growth in inventory and capital improvement spending, while another said that small businesses were making renovations to commercial properties. However, several loan officers around the District saw little improvement in loan demand from the retail sector. On the consumer side, mortgage demand continued to improve, although refinancing dominated much of the lending. Other bank officials noted solid gains in home improvement loans, with one banker citing an increase in use of equity lines of credit. In contrast to the more upbeat reports, several officials at mid-sized banks described loan demand as flat in recent months, with little new business in the pipeline for either mortgage or commercial loans.

**Real Estate.** Residential real estate activity generally improved since our last report. A Realtor in the Richmond area, who noted some improvement in April, said that May would be a big indicator of whether the spring market just came early, or if gains would continue into June. He was cautiously optimistic that real estate activity was moving in a positive direction. A source from the Hampton Roads area of Virginia said that housing-related activity in that area had seen recent signs of improvement, adding that properties were being “snapped up” as investors became more confident of a housing recovery and home sellers became more realistic with their prices. Moreover, several brokers in Asheville and Raleigh, North Carolina stated there was an up-tick in housing sales. However, an agent in the Winston-Salem area of the state mentioned that there was still stagnant growth in some areas, and that homes for sale in that area were out of balance with area incomes. Several Realtors reported that sales picked up in recent weeks, while housing prices dropped. Most Realtors indicated that sales were concentrated in the low-to- mid-price range.

Commercial real estate leasing and construction was flat or moderately improving in recent months, although pockets of weakness persisted. Respondents around the District reported more
construction and absorption, especially in the industrial segment. Contacts at several engineering and architectural firms confirmed that interest in new construction projects increased, although demand remained well below pre-recession levels. Construction activity in South Carolina was driven by the recent expansion of manufacturing activity in the state, while gains in West Virginia were associated with the emerging boom in natural gas. One real estate developer in Charleston, South Carolina said that rents had increased to the point where “new construction is starting to make sense.” A developer in the Richmond area cited a rise in demand for warehousing space, related to healthcare facilities and an increase in on-line shopping activity.

Labor Markets. Assessments of labor market activity were mixed since our last report. Several employment agency contacts saw somewhat greater demand for temporary workers, and most expected demand to remain strong for the remainder of the year. A Baltimore agent reported an increase in demand for manufacturing workers, adding that manufacturers were hurt by a severe shortage of trained workers. Several contacts said that current hiring was focused on skilled positions, and they expected that companies would continue to experience recruitment problems. However, a representative at a Richmond staffing agency reported that job orders continued to be steady and that more area companies were hiring workers on a permanent basis than a year ago. A source in South Carolina noted that the aerospace industry was investing heavily in new technologies that would reduce the need to hire additional workers. According to our latest survey, District wage gains in manufacturing were slightly lower than a month ago, while the pace of wages in the service sector increased.

Tourism. Tourism contacts reported strong bookings during the last four to six weeks, and restaurants in tourist areas experienced solid customer demand. Several hotel owners on the outer banks of North Carolina said that spring got off to a strong start and summer rentals were up. Memorial Day is the traditional summer kick-off for resorts, and most were advertising special events for that weekend. A resort owner in the mountains of Virginia said that he expected a record crowd for the holiday. He added that lower gas prices and good weather boosted bookings in recent weeks, following a winter season with weak demand due to unusually warm weather. In addition, time-share rentals were strong, and booking incentives were no longer necessary.

Agriculture. Rainfall across the District supplied much-needed moisture to emerging field crops. In South Carolina, cotton planting was slightly ahead of schedule, and planting of peanuts was well ahead of its normal pace. However, rainfall delayed plantings of cotton and peanuts in parts of North Carolina and Virginia. Excess precipitation was also problematic for strawberry farmers in Virginia, causing fruit spoilage; the problem was compounded by a lack of pickers. Corn and soybeans began to emerge in Maryland, while farmers in West Virginia reported that warm weather put planting of corn and soybeans ahead of schedule. Lastly, the peach harvest was under way in South Carolina, and cantaloupe and watermelon planting was complete.
SIXTH DISTRICT – ATLANTA

Summary. Reports from Sixth District business contacts indicated that economic activity continued to expand at a moderate pace in April and May. Reports were somewhat more positive than the previous report, and expectations remained generally optimistic across most sectors. However, uncertainties surrounding the potential impact of developments in Europe weighed on the outlook.

Most retailers noted a modest increase in sales activity, and auto sales remained strong. Positive reports from the hospitality sector included healthy occupancy and room rates, and future bookings were solid. Brokers and homebuilders noted higher sales compared with last year, and commercial real estate contacts stated they were seeing improvements led by gains in the apartment segment. Manufacturers cited modest growth in new orders and production. Bankers asserted that the demand for refinancing mortgages continued to increase slowly. Hiring activity was positive, but muted. Firms continued to note difficulty filling specialized positions. Most businesses indicated having little pricing power; however, an increasing number of firms said that they have been able to successfully pass on price increases, especially those tied to energy costs.

Consumer Spending and Tourism. Reports from District retailers indicated that consumer spending improved in April and May. Merchants anticipate that sales will continue to grow at a modest pace in the near term. The auto sector remained strong, and regional dealers expect sales to remain solid going forward. Despite the recent slide in gasoline prices, merchants remained wary of the potential impact on personal spending. That said, few retailers reported significant changes in consumer behavior with the exception of those operating in rural areas.

Leisure and business travel contacts continued to report robust activity and a solid outlook for the remainder of 2012. Occupancy and room rates exceeded expectations and convention bookings remained strong. Reports also showed that a number of hospitality-related capital investment projects were underway in several areas across the District. Florida continued to be bolstered by visitors from South America and Canada. Cruise-line bookings were down slightly compared with the last report. High fuels costs were identified as a downside risk to the summer travel season, but hospitality contacts were somewhat less concerned than they were earlier in the year. They were more concerned, however, about a potential decline in visitors from Europe.

Real Estate and Construction. The majority of residential brokers said that home sales exceeded year-ago levels in April and May with many reporting that sales exceeded expectations. Strengthening sales, mostly from cash buyers and investors, were noted by most Florida contacts.
Brokers observed that inventory levels across the District continued to decline. The majority of contacts reported that home prices were flat to slightly up on a year-over-year basis. The sales outlook among brokers remained positive with most anticipating year-over-year gains, albeit from very low levels of overall activity, over the next several months.

District homebuilders reported that new home sales and construction rose modestly compared with a year earlier. Builders indicated that home price declines continued to abate. The majority indicated that new home inventories declined further on a year-over-year basis. Contacts noted that multifamily construction remained robust and new projects continued to be announced. In the short-term, homebuilders expect sales and construction to be flat to slightly up compared with a year earlier.

Improvements in the District’s commercial real estate markets were led by gains in occupancy and solid rental growth in the apartment sector. Overall, small improvements were noted in the region’s office and industrial sectors as vacancy rates moderated somewhat; however, reports on District retail real estate were more mixed. Although flat on a year-over-year basis, the majority of commercial contractors said that year-to-date construction activity was slightly ahead of activity in last year’s fourth quarter. Backlogs were down from a year earlier. Most contacts anticipate a modest increase in private construction activity through the remainder of the year, while public works projects are expected to decelerate.

Manufacturing and Transportation. The District’s manufacturing sector continued to expand modestly in April and May. Manufacturers reported growth in new orders and production, but noted that employment growth had slowed somewhat. A District auto manufacturer announced plans to add a third shift to meet increased global demand for their products. Auto producers continued to note concern about economic and financial conditions in Europe, a significant market for the region’s auto exports.

Railroad contacts noted continued volume growth in shipments of automobiles, metals, and forest products, along with strong intermodal demand. Shipments of coal, construction-related aggregates, and chemicals continued to moderate, however. Reports indicated that elevated diesel prices were allowing railroads to maintain a competitive edge over trucking. At District ports, imports of construction-related steel was reportedly strengthening.

Banking and Finance. Lending standards remained largely unchanged since the last report, but banking contacts indicated that more applicants were qualifying for loans. Most District bankers commented that demand for refinancing mortgage loans continued to increase; more applicants had ample cash for down payments or enough equity in their homes to meet the loan requirements. Credit
availability increased and competition among lenders for loans remained strong. Some bankers mentioned improvements in the general creditworthiness of borrowers and appraisal valuations.

**Employment and Prices.** Regional employment growth remained positive, although contacts noted that uncertainty regarding future economic conditions was a major headwind for additional job creation. Employers continued to express difficulty hiring for specialized positions, such as those in information technology and engineering. Trucking contacts also noted continuing trouble finding qualified labor to meet new federal regulations and some manufacturers cited difficulties finding trained operators and welders. Skilled auto mechanics also appeared to be in short supply. Firms noted the importance of efforts by government and academic institutions to coordinate training programs with large employers. Contacts also indicated that private training programs funded by trade associations or industry groups were being developed to train workers where larger public programs were not available.

Though most contacts continued to indicate having little pricing power, more firms recounted successful attempts or plans to pass on price increases since the last report. Increased transportation costs, including those resulting from higher gasoline and other fuel prices were being passed on to consumers without much difficulty. Firms responding in May to the Atlanta Fed's Business Inflation Expectations survey reported that unit costs were expected to rise 1.8 percent for the year ahead, down from an average of 2.0 percent over the previous three month period. According to businesses surveyed, materials costs had subsided somewhat since April, though they are still expected to have a moderate upward influence on prices over the coming year. Despite continuing reports that sales levels are below what they consider to be normal, contacts anticipate little to moderate upward price pressure from improving sales levels over the next 12 months.

**Natural Resources and Agriculture.** Contacts noted that more investment is needed in transportation infrastructure to accommodate recent increases in domestic and Canadian energy production. District refining contacts indicated that the capacity to process heavier grades of crude are limited and despite investment in additional refinery capacity, a number of recent and planned refinery closures elsewhere in the country could imply that existing facilities may have difficulty meeting demand for distillate fuels, like diesel and jet fuel. Permits for offshore drilling have increased in recent months. Drought conditions worsened in most of Florida and Georgia and parts of Alabama. Prices paid to farmers for oranges were up and a contact reported these higher prices were dampening demand. Prices paid for soybeans were up on a year-over-year and month-over-month basis because of strong global demand and decreased supplies coming from South America.
Summary. Economic activity in the Seventh District continued to expand at a moderate pace in April and May, although at a touch slower rate than during the prior reporting period. Many contacts remained cautiously optimistic in their outlook for the U.S. economy. Several, however, also noted an increase in economic uncertainty, pointing to weaker business conditions in Europe and Asia and the upcoming elections in the U.S. Growth in consumer spending slowed, while business spending continued to increase at a steady pace. Manufacturing production also rose at a steady pace, and construction activity increased as well. Credit conditions were little changed on balance. Commodity prices moved lower, and wage increases remained moderate. Planting of corn and soybeans was well ahead of the normal pace and that of a year ago.

Consumer spending. Consumer spending increased at a slower rate in April and May. Retailers indicated that the slower sales pace was due in large part to the unseasonable weather that had boosted activity during the prior reporting period. Spending on necessities increased, while outlays for big-ticket items like furniture, appliances, and electronics decreased. Inventories generally were at more seasonally appropriate levels. Looking ahead, some retailers are planning to add to inventories in expectation of a better back-to-school season than last year. Auto sales were flat, and auto dealers expect that sales will remain at about this pace through the fall. Some dealers continued to report difficulty in stocking popular models because of supply chain constraints.

Business spending. Business spending continued at a steady pace in April and May. Inventories generally were reported to be at comfortable levels. Strong expected sales growth, high rates of capacity utilization, and the need to replace aging equipment continued to support manufacturers’ expenditures on plant and equipment. Outside of manufacturing, firms were more cautious in their capital spending, citing increased economic uncertainty. Labor market conditions were little changed over the reporting period. Hiring remained selective, and most contacts indicated that they had not changed their hiring plans. Some manufacturers were increasing overtime, but noted that orders were not yet strong enough to necessitate adding to their labor forces. Those manufacturers who were looking to hire continued to report difficulty in finding skilled workers. Several said they were easing job requirements, using internships, or increasing college recruiting to try to fill open positions.
Construction/real estate. Construction and real estate activity increased in April and May. Demand continued to be strong for multi-family construction, especially apartments, but also increased for single-family homes. The residential rental market strengthened, with rents rising further and one contact noting a shortage of single-family properties for lease in parts of the District. Realtors indicated that they were also beginning to see a pickup in demand in the for-purchase market for single-family homes, as more sales had multiple offers on them. Commercial real estate conditions also continued to improve gradually. Demand increased for urban office space, hotels, and education facilities, while it remained weak for suburban office and retail space. Vacancy rates edged lower, but remained elevated, particularly for retail properties. A contact noted, however, that some suburban retail space was being switched over to alternative uses.

Manufacturing. Manufacturing production increased at a steady pace in April and May. Capacity utilization in the steel industry reached its highest level since the end of the recession, as stronger demand from North American customers offset weaker demand from Europe and Asia. The auto industry remained a source of strength for manufacturing. Auto suppliers were operating at high levels of capacity utilization, but noted that production growth had stabilized after the large gains earlier in the year. Demand for heavy equipment, though still strong, decreased slightly. Contacts expressed some concern over current weakness in global demand, but indicated that the industry was still being boosted by domestic demand, notably by a robust rental market and continued strength in the energy and mining sectors. Agricultural and construction equipment were also noted as areas of strength, with dealers adding products for the upcoming construction season. Manufacturers of household goods and building materials continued to experience soft demand, although a few noted a recent pick-up in activity.

Banking/finance. Credit conditions were little changed on balance from the prior reporting period. Credit spreads and market volatility edged up. Business loan demand remained limited apart from steady growth in refinancing and capital replacement. For large banks, some of the weakness in the business loan segment has been offset by an increase in demand for other services, such as foreign exchange hedging and liquidity management. Banking contacts indicated that there continues to be fierce competition among lenders for creditworthy borrowers. Contacts also noted an increase in the availability of credit for commercial real estate and consumer auto loans, while lending standards for residential mortgages remained tight.

Prices/costs. Cost pressures leveled off in April and May. Steel prices softened, with one contact noting that weaker demand in Europe and Asia had contributed to the decline. Energy prices
also moved lower. Wholesale price pressures eased some, most notably for cotton and dairy products, although transportation costs continued to increase. Retailers indicated that they were largely absorbing the higher transportation costs in their margins and continued to discount heavily items such as clothing. Wage pressures continued to be moderate, although many contacts noted an increase in healthcare costs.

**Agriculture.** District corn and soybean planting in April and May were well ahead of last year’s pace, as well as the five-year average. Corn planting was almost finished in Illinois, Indiana, and Iowa. The emergence of corn and soybean plants generally was also faster than typical. With an early and promising start, the corn crop may set a record this year, although dryness currently exists across much of the District. Corn and soybean prices fell during the reporting period, while wheat prices rose. Milk prices decreased, and prices are low enough to trigger some concerns about margins for dairy operations. Hog and cattle prices were higher.
Summary

The economy of the Eighth District has continued to grow at a modest pace since our previous survey. Residential real estate market conditions have improved moderately. Similarly, commercial real estate market conditions have also improved. Retail and auto sales in April and early May increased over year-earlier levels. In contrast, recent reports of plans from firms in the manufacturing and services sectors were mixed. Reports of lending activity at a sample of large District banks during the first quarter of 2012 were somewhat mixed.

Consumer Spending

Contacts reported that retail sales in April and early May were up slightly, on average, over year-earlier levels. About 60 percent of the retailers reported increases in sales, while 12 percent saw decreases and 28 percent saw no changes. Thirty-seven percent of the retailers noted that sales levels met their expectations, 42 percent reported that sales were below expectations, and 21 percent reported that sales were above expectations. Twenty percent of the retailers noted that their inventories were too high, while 12 percent indicated that their inventories were too low. The sales outlook for the summer was positive: 56 percent of the retailers expect sales to increase over 2011 levels, while 24 percent expect sales to decrease and 20 percent expect sales to be similar to last year’s sales.

Car dealers in the District reported that sales in April and early May were up, on average, compared with last year. About 64 percent of the car dealers surveyed saw increases in sales, while 24 percent saw decreases and 12 percent saw no changes. Twenty percent of the car dealers noted that new car sales had increased relative to used car sales, while 20 percent reported the opposite. Also, roughly 28 percent of contacts reported an increase in sales of low-end vehicles relative to high-end vehicles, while about 12 percent reported the opposite. Forty percent of the car dealers surveyed reported that their inventories were too low, while about 8 percent reported that their inventories were too high. The sales outlook for June and July was optimistic: 88 percent of the car dealers expect sales to increase over 2011
levels, while just 8 percent expect sales to decrease and 4 percent expect sales to be similar to last year's sales.

Manufacturing and Other Business Activity

Reports of plans for manufacturing activity have been mixed since our previous report. Several manufacturers reported plans to open plants and hire workers, while a similar number of contacts reported plans to close plants and lay off workers in the near future. Firms in the paper product, agriculture, chemical, paint, and military and police equipment manufacturing industries reported plans to decrease existing operations or close plants in the District. In contrast, contacts in the automobile parts, wood product, solar panel, and steel product manufacturing industries reported plans to hire workers and increase operations.

Reports of planned activity in the District's service sector also have been mixed since our previous survey. Contacts in air transportation support, travel, and religious organization services announced plans to lay off workers and reduce operations in the District. In contrast, firms in software development services announced plans to hire additional workers and expand operations.

Real Estate and Construction

Home sales increased throughout most of the Eighth District on a year-over-year basis. Compared with the same period in 2011, April 2012 year-to-date home sales were up 13 percent in Louisville, 3 percent in Little Rock, 20 percent in Memphis, and 18 percent in St. Louis. Residential construction increased in the majority of the District over this time period. April 2012 year-to-date single-family housing permits increased in the majority of the District metro areas compared with the same period in 2011. Permits increased 35 percent in Louisville, 20 percent in Little Rock, 31 percent in Memphis, and 28 percent in St. Louis.

Commercial and industrial real estate conditions have continued to improve throughout most of the District. Contacts in Louisville reported that the increase in office real estate activity slowed during April, but overall performance in the first quarter of 2012 remained strong. A contact in St. Louis reported strong commercial real estate activity and weak industrial real estate activity in the first quarter of 2012.
Commercial and industrial construction activity improved moderately throughout most of the District. Contacts in south central Kentucky noted that new large commercial construction projects have been undertaken, and a contact in Louisville reported plans for speculative industrial construction. A contact in Pine Bluff, Arkansas, reported some new large commercial construction plans. A contact noted a few large industrial construction plans in Wentzville, Missouri, and some commercial and industrial construction plans in Jefferson County, while a contact in St. Louis reported steady commercial construction activity.

**Banking and Finance**

A survey of senior loan officers at a sample of large District banks indicated moderate changes in overall lending activity during the first quarter of 2012. During this period, credit standards for commercial and industrial loans remained unchanged, while demand for such loans was moderately stronger. Credit standards for commercial real estate loans generally remained unchanged. Demand for commercial real estate loans ranged from unchanged to substantially stronger. Meanwhile, credit standards for consumer loans ranged from basically unchanged to somewhat eased, while demand ranged from moderately weaker to moderately stronger. Respondents noted that credit standards for prime residential mortgage loans remained unchanged, while demand for these loans ranged from about the same to substantially stronger.

**Agriculture and Natural Resources**

Crop moisture levels from April to mid-May were classified as slightly dry to favorably moist in most of the District except southern Arkansas and most of Mississippi. Rates of completion for the planting of corn, cotton, rice, sorghum, and soybeans were at least 15 percentage points higher than their 5-year average rates in most District states, while crop emergence was also ahead of schedule. More than 88 percent of the winter wheat crop was rated as fair or better, while 77 percent or more of pasture land was also similarly rated in all District states. The District’s year-to-date coal production for early May was 3.8 percent lower compared with the same period last year. Similarly, the District’s coal production for April 2012 was 2.6 percent lower than in April 2011.
The Ninth District economy grew at a modest to firm pace since the last report. Strength was noted in consumer spending, tourism, professional services, real estate, construction, manufacturing, energy and mining, and agriculture. Firms reported difficulties hiring qualified candidates, although wage increases remained modest. Price increases were generally subdued.

**Consumer Spending and Tourism**

Consumer spending increased modestly. Same-store sales at a Minnesota-based retailer increased just over 1 percent in April compared with a year ago; the soft gains were attributed to an earlier Easter holiday and warmer weather in February and March, which likely pulled sales earlier into the year. Recent sales were up slightly at a Minneapolis area mall where a number of stores were undergoing or planning renovations. A Montana bank director reported that vehicle sales were up from a year earlier and a representative of an auto dealers association in North Dakota reported strong sales during the past two months, particularly in the western part of the state. Recent sales at grocery stores owned by a Minnesota-based company were down slightly. Meanwhile, a Minnesota-based electronics retailer announced plans to close six stores in Minnesota.

Tourism officials and businesses were cautiously optimistic about the upcoming summer season. According to a survey of Minnesota lodging and camping properties, 39 percent of respondents expect summer occupancy to be up, while 15 percent expect decreases from a year ago. Officials in South Dakota reported an increase in the number of tourism information requests; early warm weather increased visits to a number of attractions.

**Construction and Real Estate**

Construction activity increased from a year ago. The value of commercial building permits in the Sioux Falls, S.D., area was up in April from a year earlier. The value and number of new commercial permits increased in Fargo, N.D., during 2012 compared with the same period in 2011. Several new commercial building projects are under consideration in the Minneapolis area. However, respondents to the University of St. Thomas’s semiannual Minnesota Commercial Real Estate Survey (May) expected higher land and building costs, which could dampen growth in construction. Residential construction increased from a year ago. The value of residential building permits increased significantly in the Sioux Falls area in April. The number of single-family
building permits increased in Minnesota in March 2012, compared with March 2011. Numerous new multifamily projects were planned for several parts of the District.

Commercial real estate market activity increased. According to the aforementioned University of St. Thomas survey, respondents expected growth in commercial rents and occupancy. Several large Minnesota companies recently renewed or signed new leases for additional office space. A real estate consultancy reported that industrial vacancy rates in the Minneapolis area decreased in the first quarter of this year compared with the fourth quarter of last year; however, office and retail vacancy rates increased. Increases in residential real estate sales continued across most of the District. Home sales in April were up 7 percent from the same period a year ago in the Minneapolis-St. Paul area; the inventory of homes for sale was down 29 percent and the median sales price rose by 12 percent. In the Sioux Falls area, April home sales were up 11 percent, inventory was down and the median sales price rose 4 percent relative to a year ago.

**Services**

Activity at professional business services firms increased slightly since the last report. An engineering and design firm near oil producing areas of the District reported extremely strong demand for construction developments. Preliminary results of the Minneapolis Fed’s annual survey of professional services companies in May showed that sales revenue, space usage, and profits are expected to increase over the next year. A medium-sized Minnesota services firm commented that they “feel optimistic and are trying to improve efficiency.”

**Manufacturing**

Manufacturing activity continued to expand since the last report. An April survey of purchasing managers by Creighton University (Omaha, Neb.) found that production expanded in Minnesota and the Dakotas. A light industrial manufacturer in South Dakota reported the strongest capital expenditure levels in 10 years as it developed a successful niche business line. A cement factory in Rapid City, S.D., is considering a $100 million expansion. A steel mill in Minnesota announced a $50 million investment in upgrades.

**Energy and mining**

Activity in the energy and mining sectors grew. Oil and gas exploration activity increased in North Dakota and Montana since the last report. A biodiesel refinery in Minnesota announced a $20 million upgrade to switch feed stocks from soybean oil to waste fats.
District iron ore mines continued to operate at near capacity. Montana hard-rock mines were also busy, with numerous expansions underway across the state. However, District limestone quarries were still suffering from reduced cement demand.

**Agriculture**

The agricultural sector maintained its strength. Warm spring weather allowed farmers to get into fields early and plantings of corn, spring wheat and soybeans in mid-May was well ahead of average in District states. In addition, recent rains alleviated drought conditions that had persisted until recently in Minnesota and the Dakotas. The Minneapolis Fed’s first quarter (April) survey of agricultural credit conditions indicated that most lenders saw continued increases in farm household income and capital spending, though respondents expect growth to moderate over the next three months. Agricultural output prices have come down somewhat recently. April prices received by farmers for soybeans, cattle and chickens increased from a year earlier; prices declined for wheat, corn, hogs, dairy products and eggs.

**Employment, Wages and Prices**

A number of employers with open positions noticed tightening in the labor market. Manufacturers in several areas reported difficulty recruiting skilled workers, particularly welders. Agriculture operations in the western part of the District noted difficulty finding workers for certain positions. An aircraft maintenance company recently confirmed plans to expand its operations in Minnesota with potential hiring of up to 225 people. In North Dakota an equipment manufacturer announced plans to create 200 jobs and in northwestern Wisconsin a recreational vehicle manufacturer will add almost 90 jobs.

In contrast, a surprising number of lay-offs were reported recently. A food manufacturer announced plans to cut over 400 positions in Minnesota as part of a restructuring strategy. Also in Minnesota a medical devices company will lay off 220 employees and a cleaning products manufacturer laid off 70 information technology workers. An aerospace manufacturer will close a plant in northwestern Wisconsin, affecting 130 workers.

A larger number of businesses reported wage increases, but the size of increases remained modest. According to a recent Minneapolis Fed ad hoc survey of business contacts, 65 percent reported that their companies were facing higher wages. Larger wage increases were reported in the oil drilling region of western North Dakota and eastern Montana.
Price pressures were generally subdued since the last report, although 73 percent of respondents to the Minneapolis Fed’s ad hoc survey reported upward input cost pressures. Late-May Minnesota gasoline prices were about 15 cents per gallon lower than mid-April and 35 cents per gallon lower than a year ago. A number of metals prices decreased since the last report. A recent budget proposal for the University of Minnesota includes a 3.5 percent increase for in-state undergraduates, the smallest percentage increase in 12 years.
TENTH DISTRICT - KANSAS CITY

The Tenth District economy improved moderately in late April and May. Retailers and restaurant contacts reported stronger sales, while auto sales declined. Both retailers and auto contacts expected increased activity in the months ahead. Manufacturing activity rose, and the high-tech services industry experienced modest growth. Transportation activity was flat and was expected to remain unchanged in the months ahead. Residential and commercial real estate activity increased solidly with higher sales and lower vacancy rates. Banking contacts reported slightly higher loan demand, improved loan quality and increased deposits. Agricultural growing conditions improved, and farmland values continued to climb. The energy sector expanded further, but the oversupply of natural gas was leading to a slower pace of expansion. Most sectors reported higher input prices and final goods prices, and expected further increases in the coming months. Wage pressures increased, and firms reported some difficulty in filling positions.

**Consumer Spending.** Consumer spending increased in the retail, restaurant and tourism sectors but declined in the auto sector. District contacts from every consumer sector expected stronger sales over the next three months. Retailers reported sharply higher sales compared to a month ago. Most product lines experienced gains including home goods such as dining tables, bedroom sets and appliances. Auto sales fell sharply with large SUVs and trucks continuing to be weak sellers. However, most auto contacts remained satisfied with current inventory levels. Restaurant contacts reported increased traffic and higher check amounts. Tourism activity increased in the District due in part to good spring weather. Hotel occupancy held steady as average room rates edged up.

**Manufacturing and Other Business Activity.** Manufacturing activity in the Tenth District improved in May, and expectations for future activity were stronger than in previous months. Both durable and non-durable goods manufacturers reported increased production. New orders and factory shipments increased during the survey period. Manufacturing contacts reported that capital spending plans were much improved, and several noted plans to expand into new products and markets. Growth in transportation activity was flat, and contacts reported
higher input prices. Capital spending plans at transportation firms continued to be sluggish, and firms expected future activity to be unchanged. High-tech services firms reported moderate growth in sales, and expectations for future activity were strong. Several high-tech firms reported difficulty in finding experienced workers, especially qualified software developers.

Real Estate and Construction. Residential real estate activity improved during the most recent survey period, and commercial activity was solid. Housing starts were down compared to the previous survey, but builders expected new home construction to increase over the next three months. Housing materials were readily available, but several respondents had trouble finding skilled workers. Sales activity at construction supply firms surged during the survey period across all types of materials, and expectations for sales continued to be strong. Residential sales were much improved from the previous survey, and inventories continued to fall. Contacts reported that homes priced between $150,000 and $300,000 sold particularly well, but homes at the upper end of the market continued to be difficult to sell. Overall mortgage lending activity grew this survey period, but refinancing activity was flat. The majority of refinancing activity was due to lower payments in response to low interest rates. Commercial real estate activity was solid during the survey period, but there was some uncertainty about future activity. Vacancy rates fell, and contacts expected them to continue to fall over the next three months. Prices and rents were flat, but expectations were for some increases in the future. Several respondents believed that political uncertainty could create some weakness in the construction and commercial real estate markets.

Banking. In the recent survey period, bankers generally reported slightly stronger loan demand, improving loan quality, and increased deposits. Overall loan demand was improving as most respondents reported stable to increased loan demand for residential real estate loans, commercial and industrial loans, and commercial real estate loans. Demand for consumer installment loans remained steady. Credit standards remained largely unchanged in all major loan categories, and the majority of respondents reported steady or increased deposits. Most bankers reported improving loan quality compared to a year ago. Additionally, every banker believed the outlook for loan quality over the next six months would be steady or improving.
Agriculture. Agricultural conditions improved since the last survey. District contacts reported that winter wheat development was roughly three weeks ahead of normal. Most of the winter wheat was rated in fair-to-good condition. Spring planting was nearly complete, and early emerged crops were rated in good condition. Tight crop supplies kept cash prices high, while the prospects of a bumper 2012 crop weighed on futures prices. High feeder calf prices continued to support strong profits for ranchers. In contrast, profits at cattle feedlots were strained by high feed and feeder calf costs. Strong export demand underpinned profits for pork producers. Farmland values rose further, buoyed by farm incomes and revenues from mineral rights leases.

Energy. Energy activity continued to expand in May. Drilling activity increased since the previous survey. However, contacts reported that storage reservoirs were full and that an oversupply of natural gas was beginning to result in a slowdown in the pace of drilling. Oil prices fell during the survey period, and contacts believed that a slumping world economy would keep prices steady over the next three months. Natural gas prices rose somewhat but remained near historically low levels, and contacts expected prices to stay low due to oversupply. Firms reported that they would like to expand their workforces in the coming months, but noted that it had been difficult to find experienced field workers and engineers.

Wages and Prices. District contacts reported higher prices for both inputs and finished goods, and wage pressures increased from low levels. Manufacturers continued to report higher raw material prices, but prices increased at a slower pace than earlier this year. Finished goods prices rose slightly in April and were flat in May. Manufacturers expected higher prices for both raw materials and finished goods over the next six months although the number of contacts expecting an increase fell slightly. Builders reported higher input prices, and retailers reported higher sales prices. Both builders and retailers expected further increases over the next three months. Higher food costs and menu prices were noted by restaurant contacts who also anticipated raising menu prices further as food prices continue to rise. Wage pressures increased since the previous survey but remained fairly low. The number of contacts reporting labor shortages remained stable, but contacts reported difficulty in filling a variety of positions including housekeeping, sales, drivers, mechanics, engineers, and skilled workmen.
The Eleventh District economy expanded at a moderate pace over the past six weeks. Manufacturing activity was flat to up, demand for business services rose and transportation services activity was mixed. Energy activity remained strong, and the housing sector continued to improve. Retail sales rose moderately, and auto sales were strong. Loan demand picked up since the last report. Drought conditions improved. Most firms reported no change in selling prices. Employment levels were steady to slightly higher, and wage pressures remained minimal. Most firms’ outlooks are optimistic, although many respondents expressed concern about U.S. political uncertainty and the European debt situation.

**Prices** Most responding firms said prices were unchanged, although some noted that input prices ticked up slightly. Retailers said selling prices were stable, although food prices increased. Auto dealers said prices were unchanged. Transportation service firms expect lower energy surcharges by July due to recently reduced prices for jet and diesel fuel. In contrast, airlines expect a slight upward trend due to higher fuel costs compared to last year at this time. Agricultural producers noted lower commodity prices and input costs.

The price of WTI fell from near $100 per barrel to the low $90 range over the reporting period. Natural gas prices rose to $2.70 MMBtu after falling under $2 in early April. Respondents said the substitution of natural gas for coal in power generation reduced inventories, although they remain 40 percent above normal. The price of gasoline fell about 20 cents per gallon, and diesel prices fell by 15 cents. Spot prices for several petrochemical products fell sharply as plants returned to production following maintenance, and contacts expect contract prices to follow.

**Labor Market** Employment levels were flat to up slightly at most responding firms. Staffing firms said demand picked up over the past six weeks after a slight softening during the prior reporting period. Reports of small employment increases came from some high-tech, transportation, metals, construction materials and food manufacturers. Contacts in auto sales, staffing and transportation services also noted slight increases. Wage pressures remained minimal, although wage increases were noted by some legal firms.

**Manufacturing** Overall demand for construction-related materials improved during the reporting period. Favorable weather and improved residential and commercial construction activity provided a boost to stone, clay and glass producers. Primary and fabricated metals manufacturers reported steady demand, and producers of lumber and related products noted a broad-based increase in orders. Construction-related outlooks were generally positive, but some contacts are concerned about domestic political uncertainty and unfavorable developments in Europe derailing the pickup in activity seen so far this year.
High-tech manufacturers said orders continued to grow at a moderate pace. According to contacts, demand for logic devices was strong, while orders and prices for memory chips remained weak. One respondent noted some strengthening in industrial demand and orders for communications infrastructure equipment, such as cell phone towers. Inventories were near desired levels. The outlook for the next three to six months is for mild to moderate growth, although one contact said a recent increase in new orders has raised the likelihood that production may pick up in the second half of the year.

Aviation equipment manufacturers said demand was flat during the reporting period. Contacts were more pessimistic in their outlooks for the year, citing soft demand and negative economic news as key factors. Recreational vehicle manufacturers reported weak sales, in part due to economic uncertainty and fuel price shocks. Food producers said sales activity increased over the past six weeks, and orders were well above year-ago levels. Reports from paper manufacturers were mixed, but contacts expect modest sales growth for the year.

Petrochemicals producers reported moderate domestic demand but said export demand slowed, partly a result of higher U.S. plastics prices, but also due to weaker growth in Asia and the Middle East. Notably, contacts said domestic PVC demand rose for the first time in a long time in response to an increase in housing starts and other construction. Outlooks for the petrochemical industry were positive, and announcements for new construction or expansion continue at a rapid pace. Refiners said margins improved slightly in early May.

Retail Sales  Retail sales grew modestly over the comparable period from a year ago and performed in line with contacts’ expectations. Strength was seen in sporting goods and men’s and women’s apparel. Eleventh District sales growth was stronger than the nation on average, according to a large national retailer. Contacts noted that consumers still seem a bit hesitant, but business is improving nonetheless. Inventories are in good shape and being managed closely. Automobile sales continued to rise over the reporting period. Car sales were especially strong, but trucks were selling well too. Contacts’ outlooks remain optimistic and they expect continued growth in vehicle sales.

Services  Staffing services said activity picked up over the past six weeks, following a slight softening in demand seen during the prior reporting period. Shortages of skilled IT professionals continued, and several contacts reported an increase in demand for construction workers. Legal firms reported steady demand, with continued strength in corporate, intellectual property and energy services. Contacts also noted a slight uptick in estate planning, lobbying and real estate related services. Accounting firms noted a modest pickup in demand largely due to growth in mergers and acquisitions related activity.

Reports from transportation service firms were mixed. Small parcel and air cargo volumes increased, while railroad shipments and shipping container volumes declined during the reporting period.
Intermodal firms reported an increase in cargo volumes largely due to strong demand for oil field supplies.

Airlines said passenger demand improved over the past six weeks. Domestic demand increased, while demand for international travel was flat. Contacts said business travelers continued to be price sensitive and were purchasing restricted discount fares. Responding firms expect passenger demand to remain steady over the next three months.

**Construction and Real Estate** Contacts in the single-family housing industry noted consistent indications of recovery in Texas markets. Respondents said sales are up year-to-date, and some builders were beating sales expectations. Agents noted solid sales for existing homes, and outlooks are more positive. Apartment market respondents said that after first quarter softness, demand came back stronger in recent months, as expected. Texas apartment markets continued to outperform other parts of the U.S., according to contacts. Rental rate increases slowed, but remain relatively healthy. Apartment construction activity is still at low levels, but is expected to pick up in the second half of the year.

Commercial real estate leasing activity remained strong across Texas metros. Houston, in particular, saw robust office and industrial demand growth thanks to strong energy sector expansion. Construction activity is expected to improve modestly in Texas markets in the second half of 2012. Some contacts noted a recent trepidation in the capital market/lending environment due to heightened worries about European debt problems.

**Financial Services** Financial firms reported a modest uptick in loan demand. National banks reported strength in middle-market lending, auto loans and corporate merger and acquisition activity. Regional banks also noted improved sentiments. Several banks suggested energy-related activity remains robust. Some smaller business and middle-market deals have begun to crop up. Outlooks are generally less pessimistic, and some outright optimistic, with an overall theme that “loan demand is slightly stronger.” Loan pricing remains competitive. Outstanding loan quality continues to improve and contacts note fewer problem loans.

**Energy** Respondents at energy-related firms said drilling activity remained strong, and the District rig count grew modestly over the past six weeks. The shift from dry-gas drilling to wet-gas or oil-directed drilling continued, and some firms noted logistical problems as they try to move crews and equipment. Overall, contacts say that outside of pressure pumping and fracturing used in dry-gas drilling, the market for oil field machinery and services remains very strong.

**Agriculture** Drought conditions improved over the reporting period, particularly in West Texas thanks to recent rains. Better soil moisture continued to improve prospects for the 2012 crop year, and pastures greened up for livestock producers. The wheat harvest began and yields so far were above average.
Summary

Economic activity in the Twelfth District continued to grow at a moderate pace during the reporting period of April through late May. Price increases for final goods and services were very modest, and upward wage pressures were quite limited overall. Sales of retail items rose, as did demand for consumer and business services. District manufacturing activity picked up further. Sales remained robust for agricultural producers, while conditions were mixed for providers of energy resources. Demand rose modestly for residential real estate and also improved a bit for commercial real estate. District banking contacts reported that overall loan demand edged up, and they noted further slight improvements in credit quality.

Wages and Prices

Price inflation remained quite limited for most final goods and services. Contacts noted price declines for energy inputs, particularly oil, and for an assortment of food items at the retail level. More generally, upward price pressures were quite modest, as suppliers of final goods and services were readily able to meet the existing modest growth in demand.

Contacts reported that upward wage pressures were quite limited overall. High unemployment and modest demand for new hires continued to hold down compensation gains for workers in most industries and occupations. However, wage and compensation gains remained substantial in various industries and regions for workers with specialized skills in the application of information technology.

Retail Trade and Services

Retail sales grew modestly on balance. Gains were reported by traditional department stores and discount chains alike, although contacts noted a slightly slower pace of growth compared with the prior reporting period. Inventories generally were at or near desired levels given the current pace of sales. Demand growth slowed for retailers of home furnishings and major appliances, resulting in mostly flat sales. Demand was largely unchanged for grocers. Sales of new automobiles rose during the reporting period, although the pace of growth has moderated from that seen in the most recent reporting periods.
Demand remained strong for used vehicles and combined with tight inventories to keep prices elevated.

Demand for business and consumer services rose a bit further on balance. Activity was largely flat for professional services such as legal services and accounting, as well as for health-care services. By contrast, demand improved for transportation services such as trucking. Sales rose at a modest pace for providers of technology services, with the pace held down in part by weaker sales to European buyers; however, contacts continue to anticipate that growth will pick up in the second half of the year. Activity expanded further for radio and television broadcasters, spurred by rising demand for advertising slots. Sales activity improved further for restaurants and other food-service providers. District travel activity continued to pick up, with contacts in major markets such as Southern California, Hawaii, and Nevada highlighting ongoing improvements in visitor counts and hotel occupancy rates.

Manufacturing

District manufacturing activity rose further during the reporting period of April through late May. New orders continued to improve for manufacturers of semiconductors and other technology products, and inventories were reported to be at appropriate levels given the prevailing pace of sales. Contacts in the pharmaceutical manufacturing sector reported robust demand. Orders grew a bit for makers of commercial aircraft and parts, driven primarily by demand for fuel-efficient aircraft, and an extensive order backlog kept production rates at very high levels. For petroleum refiners, strong global demand supported an uptick in capacity utilization rates. Demand improved slightly for steel manufacturers but remained depressed for manufacturers of wood products.

Agriculture and Resource-related Industries

Demand for agricultural products remained robust, while extraction activity for energy resources continued to be uneven. Orders and sales expanded further for most crop and livestock products, spurred in part by strong growth in overseas exports. However, contacts noted that the costs of energy inputs remained quite high, and they cited renewed concerns that drought in some areas may undermine growing conditions in coming months. For energy resources, elevated price levels continued to support a pickup
in oil extraction activity. By contrast, price declines for natural gas resulted in a further reduction of extraction activity, primarily at sites for which the extracted amount of valuable liquid byproducts is low.

**Real Estate and Construction**

District home demand improved a bit further overall, and demand for commercial real estate picked up slightly on balance. Sales of new and existing homes ticked up in many areas, although the pace remained well below its historical average. The pickup was supported in part by slight improvements in financing availability, which has been an important factor holding down sales in the recent past. Faster sales reduced the inventory of available homes, which in turn caused home construction activity to rise slightly in some areas. By contrast, home prices remained largely flat. On the commercial side, vacancy rates for office and industrial space stayed elevated throughout many parts of the District. However, contacts noted widening signs of improved demand. The San Francisco Bay Area and Seattle markets continued to benefit from growth in the technology sector, which is prompting rapid absorption of commercial space and encouraging new construction. Contacts noted improved demand for office and retail space in other areas as well, such as Boise, Idaho.

**Financial Institutions**

Reports from District banking contacts indicated that loan demand showed further slight gains overall. Although businesses remained very cautious in their capital spending plans, demand edged up a bit further for new commercial and industrial loans. Furthermore, reports from most sectors suggested that capital spending is likely to increase modestly in the second half of the year compared with the first. Demand for consumer credit appeared largely unchanged. Further improvement in overall credit quality was noted, and continued fierce competition to extend credit to well-qualified small and medium-sized businesses has kept a lid on loan rates and fees. Overall, however, lending standards remained somewhat restrictive for many types of business and consumer loans.