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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

April 2013

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

APRIL 2013

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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 late February to early April. Activity in the Cleveland, Richmond, St. Louis, Minneapolis, and Kansas City Districts was characterized as growing at a moderate pace, while the Boston, Philadelphia, Atlanta, Chicago, and San Francisco Districts noted modest growth. The New York and Dallas Districts indicated that the pace of expansion accelerated slightly since the previous Beige Book.

Most Districts noted increases in manufacturing activity since the previous report. Particular strength was seen in industries tied to residential construction and automobiles, while several Districts reported uncertainty or weakness in defense-related sectors. Consumer spending grew modestly, and firms in some Districts cited higher gasoline prices, expiration of the payroll tax cut, and winter weather as factors restraining sales growth. Retailers in several Districts expect continued sales growth in the near term. Overall vehicle sales remained strong or increased, but sales of used automobiles declined in some Districts. Travel and tourism expanded across most reporting Districts, boosted by both business and leisure travel.

Demand for nonfinancial services increased at a modest pace, and several Districts noted growth in freight and transportation services. Most Districts said residential and commercial real estate improved markedly since the last report. Home prices were rising in many areas of the country. Loan demand was steady to slightly up in most Districts. Reports on agricultural conditions were mixed, as drought or cold weather adversely impacted some Districts while others reported a strong agricultural sector. Oil and natural gas activity remained robust over the reporting period, with contacts in the Cleveland, Kansas City, and Dallas Districts expecting a rise in activity in coming months, while coal production continued to decline.

Employment conditions remained unchanged or improved somewhat, and reports of hiring were most prevalent in the manufacturing, residential construction, information technology, and professional services sectors. Wage pressures were generally contained, although several Districts cited upward pressures in occupations experiencing labor shortages, such as information technology, construction, and engineering. Aside from reports of increases

* Prepared at the Federal Reserve Bank of Dallas based on information collected on or before April 5, 2013. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

in home prices and residential construction materials, price pressures remained mostly subdued across Districts.

Outlooks among respondents remained optimistic across sectors and Districts, with growth mostly expected to continue at the same or a slightly improved pace. Some uncertainty remained, primarily regarding fiscal policy and health care reform.

Manufacturing

Manufacturing activity held steady or increased in most Districts since the previous Beige Book. The pace of growth picked up in the Cleveland, Atlanta, Minneapolis, Dallas, and San Francisco Districts, while the Richmond and Chicago Districts noted that the pace of growth in production was slower than earlier this year. Contacts in the Boston District reported mixed conditions, and manufacturing activity held steady in the New York District. Manufacturing conditions in the Kansas City District continued to soften, driven by weaker durable goods production, although factory managers project a rebound in coming months. Firms in the New York, Philadelphia, and Dallas Districts were broadly optimistic about prospects for 2013, while cautious optimism was expressed by manufacturers in the Cleveland District, and mixed outlooks were expressed in the Boston District. Contacts in the Atlanta District do not expect future production to be as high as previously projected.

Strength in residential construction spurred manufacturing increases in several Districts. There were widespread reports of growth in demand for wood products; a contact in the Philadelphia District noted the best growth prospects in five years, a sawmill in Montana restarted production after idling for more than four years, and a Dallas District lumber firm noted a seasonal demand increase for the first time in several years. The auto industry remained a source of strength for several Districts, including Philadelphia, Cleveland, Chicago, St. Louis, and Minneapolis. Gains were reported by food manufacturers in the Philadelphia and Dallas Districts, and food contacts in the St. Louis and Dallas Districts plan to expand operations or make significant capital expenditures. In the Cleveland District, suppliers to the shale gas industry cited strong activity, and increased activity in natural-gas related industries was seen in the Chicago District. Electronic equipment and instruments manufacturers in the Philadelphia District and high tech firms in the Kansas City District noted gains over the reporting period,

while reports on high tech orders in the Dallas District were mixed across customer groups, and semiconductor firms in the Boston District said sales continued to languish.

Numerous Districts reported uncertainty or weakness in military or defense-related sectors. San Francisco District defense-related manufactures noted furloughs, layoffs, and plant closures at some production facilities, and military customers in the Chicago District were taking measures to lower costs in anticipation of tighter future defense budgets. Lower activity was indicated by makers of primary metals in the Philadelphia District, and Chicago District specialty metal manufacturers noted declines in new orders. Demand for steel was relatively flat in the Cleveland and Chicago Districts, while firms in the San Francisco District saw an increase in demand for steel products used primarily in transportation infrastructure and nonresidential construction projects. Reports from fabricated metals producers were mixed across Districts, with increases noted in the Philadelphia and Dallas Districts while weaker production was noted in the Kansas City District.

Consumer Spending and Tourism

Most Districts reported increases in retail spending. Firms in the New York, Philadelphia, Cleveland, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco Districts noted sales increased at a modest to moderate pace. Most retailers in the Boston District said demand was slower than expected. Sales activity was mixed according to the Atlanta District's report, and retail spending declined in the Richmond and Chicago Districts. Demand for apparel rose in the Boston, Cleveland, Kansas City, and San Francisco Districts, and sales of furniture and appliances in the Chicago District were buoyed by improvements in the housing market. Sales of electronics rose in the Cleveland District, and the San Francisco District report indicated strong demand for mobile computing devices. Contacts in some Districts cited higher gasoline prices, expiration of the payroll tax cut, and winter weather as factors restraining sales growth. Looking ahead, retailers in several Districts expect modest sales growth in the near term. In particular, the St. Louis District reported new store openings, and some retailers in the Dallas District said they have added employees in line with expanding operations.

Overall, automobile sales remained strong or increased moderately since the last report. The exception was a slight decline in sales of used vehicles in the New York and Cleveland Districts. A number of contacts in the St. Louis District reported plans to open new dealership

locations, and dealers in the Chicago District were building inventories for the spring selling season. Used vehicle prices remained high. Outlooks were mostly positive, and contacts in the Cleveland, Chicago, Minneapolis, Kansas City, and Dallas Districts expect sales to increase in coming months. However, some auto dealers in the Cleveland District expressed concern about the potential negative impact of fiscal policy on consumer spending.

Reports from most Districts pointed to continued strength in travel and tourism, bolstered by both the business and leisure segments. Business travel remained robust in the Boston, Atlanta, and Minneapolis Districts, and foreign visitors continued to boost convention travel according to the Atlanta District. The Minneapolis District noted that winter tourism activity was stronger than last year, and spring-break related travel bolstered tourism in the Richmond District. Restaurants in the Minneapolis and Kansas City Districts noted increased sales. Bookings were strong at some resorts in the Philadelphia and Richmond Districts, and hotels in Manhattan, Hawaii, and the Kansas City District noted solid gains in occupancy rates. In contrast, business at restaurants and museums in the Boston District softened in part due to unfavorable weather conditions. Attendance and revenues were slightly lower at Broadway theaters, casino revenues fell in the Philadelphia District, and tourism activity weakened in Southern California during the reporting period.

Nonfinancial Services

Demand for nonfinancial services expanded at a modest pace since the previous report. The Kansas City and San Francisco Districts noted solid growth in information technology services, and contacts expect demand to remain robust through year-end. The Boston District reported strong demand for healthcare consulting services partly due to changes resulting from the Affordable Care Act, while healthcare firms in the San Francisco District indicated plans to freeze hiring and scale back capital expenditures in response to federal spending cuts. Defense-related and other firms dependent on the federal government in the Philadelphia District said they expect a decline in activity for the remainder of the year.

Activity expanded for professional and business services, such as accounting, advertising, marketing, consulting, and legal services. Consulting services remained strong in the Boston District, and firms in the Dallas District noted strength in accounting services. Advertising and marketing firms in the Boston District said an uptick in growth for their services was buoyed by

stronger financial positions of clients. The St. Louis District noted plans for hiring and expansion in social and legal services, while the Dallas District report indicated weaker-than-expected growth in demand for legal services.

Transportation service activity increased since the previous report. Air travel improved in the Dallas District, in part due to spring-break related activity. Intermodal cargo volumes moved higher in the Atlanta and Dallas Districts, and activity at logistics and transport firms in the Philadelphia District grew at a moderate rate. Trucking traffic picked up in the Kansas City District, and trucking cargo volumes were above year ago levels according to Atlanta's report. Railroad contacts in the Dallas District said shipments grew, particularly for petroleum and construction-related products, and freight transportation volumes were higher than expected in the Cleveland District. According to Richmond's report, container traffic increased at larger ports in the District because of continued strength in shipments of auto parts. Air freight volumes rose in the Atlanta District, and small parcel shipments grew strongly in the Dallas District. However, railroad shipments were flat to slightly down in the Atlanta District, and a contact in the Richmond District said that European-bound vessels were leaving the port lighter than in the past, particularly due to a decline in construction and agricultural equipment exports.

Real Estate and Construction

Residential real estate activity continued to improve in most Districts, and some Districts, including Cleveland, Richmond, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco, noted increased momentum since the last report. The New York District, in particular, noted especially strong improvement in residential real estate—both in for-sale housing and apartment markets.

Home sales continued to rise in most Districts. Although homebuyer demand was high in the Boston District, low home inventories were restraining sales, keeping growth modest. Home sales were reportedly strong in both the Atlanta and Dallas Districts. The Richmond District noted low inventories were pushing up contracts to well above listing prices, and the Boston and New York Districts said multiple bids on properties have become more common. Tight inventories and strong sales led to rising home prices in many Districts, including Atlanta, Minneapolis, Kansas City, Dallas, and San Francisco. Within the New York District, condo sales volumes strengthened and low inventories have begun to drive up selling prices in New York

City and surrounding areas, while New Jersey home prices were rising modestly and inventories were shrinking with a marked reduction in the number of distressed properties. Contacts in the Boston District also noted a decline in the stock of distressed properties.

New home construction continued to pick up in most Districts, although the Richmond District said that a low supply of residential building materials had stalled construction. Only the Philadelphia District noted that residential construction decelerated somewhat, although home sales were still growing moderately. Multifamily construction increased in several Districts including Boston, Chicago, and San Francisco. The New York District noted apartment rents accelerated in early 2013, due to stronger demand coupled with historically low inventories. The Cleveland, Dallas, and San Francisco Districts said apartment demand remained strong.

Commercial real estate and construction activity improved in most Districts. Office vacancy rates declined in the Boston District and contacts said the construction of mixed-use projects was picking up. The New York District reported that office vacancy rates continued to decline and rents rose in Manhattan. The Philadelphia District commented that there was not much change in nonresidential activity during the reporting period, but that contracts for repair work from Hurricane Sandy have yet to be approved. Contacts in the Richmond District cited a tight supply of class A office space and said there were several large projects under construction in the Washington D.C. area. Commercial construction saw widespread improvement with the New York, Atlanta, St. Louis, Minneapolis, and Kansas City Districts noting increases. Both commercial real estate development and leasing activity increased across the San Francisco District, mostly fueled by growth in the technology industry. Several Districts, including Boston, Richmond, Atlanta, and Kansas City said commercial property investment sales activity increased during the reporting period.

Contacts in the Philadelphia and Kansas City Districts were somewhat optimistic in their outlooks for the commercial real estate and construction markets in general, but contacts in the Cleveland District were cautious about near-term construction activity. Dallas District contacts said office and warehouse markets were improving, and Atlanta District respondents noted growing optimism for the office and industrial sectors.

Banking and Finance

Loan demand was steady to slightly up at most District Banks that commented on lending. The Philadelphia District, however, said loan volumes softened somewhat since the previous report. The New York District noted widespread increases in loan demand, particularly for commercial loans and residential mortgages, and the Cleveland District said business and consumer loan demand picked up since the last report. The Dallas District saw broad-based improvement in loan demand as energy-related lending remained strong and commercial real estate and home equity lending bounced up from low levels. The San Francisco District said increased growth in automobile and mortgage loans spurred overall improvements in loan demand. Several Districts, including Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Dallas, and San Francisco, said loan pricing was very competitive.

Reports on mortgage lending were mostly favorable. Stronger refinancing activity was cited by the New York and Atlanta Districts. The Cleveland and Kansas City Districts noted a shift from mortgage refinancing to new purchases, and the New York, Richmond, Dallas, and San Francisco Districts reported an uptick in residential mortgage loans.

Most District banks said credit conditions remained favorable, with improved credit quality for business and consumer loans.

Agriculture and Natural Resources

Agricultural conditions were mixed across Districts, largely due to varying weather patterns. Drought persisted in the Kansas City District and worsened slightly in the Dallas District, straining the respective winter wheat crops and causing continued losses in the livestock sector. However, drought conditions improved significantly in much of the Atlanta District, and the winter wheat crop in the St. Louis District was largely in good condition. Cold weather delayed field preparation for spring planting in the Richmond and Chicago Districts. The Minneapolis District's agricultural sector remained strong, and producers in the San Francisco District noted increased production as well as higher demand. Farmers in the Chicago, St. Louis, and Minneapolis Districts plan to increase soybean acreage this year but were mixed in their plans for corn and other grain acreage. Contacts in the Chicago District noted that corn and soybean prices dropped over the reporting period based on expectations of a larger crop this year and current stocks not being as tight as anticipated.

Oil and natural gas production generally held steady at moderate to high levels since the last report. Drilling activity was stable over the reporting period, but contacts in the Kansas City and Dallas Districts expect a rise in coming months. Output in some wet gas regions of the Cleveland District is expected to increase later in the year as new gas processing units come online. The energy sector was a bright spot in the Atlanta District, as projects to increase the Gulf Coast's liquefied natural gas (LNG) export capacity drove capital and labor demand. Across the country, coal production continued to decline, with lower output reported by the Cleveland, Richmond, St. Louis, and Kansas City Districts.

Employment, Wages, and Prices

Labor market conditions remained unchanged or improved slightly, and reports of hiring were more widespread in the manufacturing, residential construction, information technology, and professional services sectors. Several Districts noted robust demand for workers tied to the residential construction sector, including Philadelphia, Cleveland, Dallas, and San Francisco. In particular, a lumber and wood products firm in the Philadelphia District said the firming housing market had resulted in the best growth prospects in five years. Demand for information technology professionals and engineers was strong in the New York, Richmond, Minneapolis, Kansas City, and San Francisco Districts. Staffing firms in the Cleveland and Chicago Districts noted an increase in orders from the manufacturing sector, and several manufacturers in the St. Louis and Kansas City Districts said they planned on expanding their payrolls. Reports from the New York and Richmond Districts indicated strong demand for temporary workers. The Minneapolis District noted a tightening labor market, and along with the Dallas District cited continued challenges in attracting and retaining workers in areas close to oil-drilling regions. The Chicago District cited a stronger job market for new college graduates and more competition among employers to fill intern positions. Contacts in several Districts faced difficulties finding highly trained or skilled workers, especially in the information technology and engineering fields. In contrast, hiring activity was limited in the Boston and Cleveland Districts, demand for staffing services softened in the Dallas District, and some Districts, including Richmond and Atlanta, reported restrained hiring due to uncertainty over fiscal policy or healthcare reform.

Overall upward wage pressures continued to be fairly modest. There were a few exceptions, however. Several Districts reported wage pressures in sectors experiencing labor

shortages, such as information technology, construction, and engineering. The Kansas City District noted wage increases for commercial truck drivers, and the Richmond District reported widespread wage increases in the service sector. Rising healthcare costs were a concern among contacts in a few Districts, including Philadelphia, Cleveland, and Chicago.

The majority of Districts said overall price pressures remained minimal during the reporting period. Several Districts, including Boston, Philadelphia, Cleveland, Minneapolis, Kansas City, and San Francisco, said prices for some construction materials rose since the last report, but there were few reports of pass-through.

Kansas City District contacts said price increases for raw materials used in manufacturing led to higher selling prices in some instances and retail prices edged up. New York District respondents noted some increased selling prices in the service sector, and the Atlanta District reported that contacts in the transportation sector were able to cover cost increases with fuel surcharges. The Atlanta and Dallas Districts said that cotton prices rose since the last report.

Contacts in the Richmond District noted input and finished goods prices rose at a slower pace since the last report, and Chicago District contacts said commodity prices were down slightly.

FIRST DISTRICT – BOSTON

Economic activity in the First District continues to expand modestly according to business contacts, although conditions are somewhat mixed across individual firms. Retailers generally cite slower than expected sales, and tourism has softened, partly on account of unseasonal weather. Over half of responding First District manufacturers report demand improvements in the first quarter; the rest are less upbeat. Most consulting and advertising firms say business is strong. Reports from the commercial real estate sector are more positive in this round than previously, with leasing activity improving in some markets. In the residential sector, limited inventory is said to be constraining home sales in the region, but median home prices are rising modestly. Contacts say hiring reflects demand growth, so few firms are adding substantially to headcounts except in the consulting sector. Price pressures are minimal. Most respondents expect current trends to continue, yielding modest to moderate growth in the second quarter and the second half of the year.

Retail and Tourism

Retailers contacted for this round cite mixed results for first quarter 2013. One reports that year-over-year comp store sales were up 2.5 percent to 2.6 percent, while others report slower than expected sales. Some contacts attribute their slowdowns partly to the prolonged winter weather, noting that while this winter has been unseasonably cold in some regions, winter 2012 was unusually mild. Demand remains strong for clothing, shoes, and home furnishings. Inventories are in good shape, and any price increases are moderate. Contacts continue to expect that 2013 sales increases will be in the modest single digits.

The tourism business softened in February and March compared with a year earlier; some of this slowdown is also attributed to weather-related factors, especially for restaurants and museums. January through March is seasonally the slowest period for leisure travel. Tourist activity from Europe dropped about 5 percent this quarter compared to a year ago. Corporate business travel and entertaining remain strong.

Manufacturing and Related Services

Conversations with a dozen manufacturing contacts paint a mixed picture. More than half report that demand for their products improved in the first quarter versus the previous quarter or a year earlier. The two firms reporting the strongest sales growth were in the health care sector—a drug company and a medical device manufacturer—and both reported spectacular growth. At the other end of the spectrum, two firms in the semiconductor business report that sales continue to languish. One, a maker of analog devices, acknowledged that the semiconductor business is cyclical, but said that the duration of the current slowdown is unlike anything he had encountered in his years in the industry.

Hiring patterns largely mirror sales growth, with four firms reporting substantial hiring, three citing stability, and five firms reporting staff reductions. The two health care-related firms led the pack,

increasing staff at annualized rates of 15 percent to 18 percent. For the medical device manufacturer, the hiring was largely support personnel such as sales, marketing, and back office.

Weakness in demand is not yet translating into lower capital expenditures, with only one firm reporting a reduction. Half the firms noted increases in spending and the rest reported no change. One of firms engaged in substantial capital spending relative to sales is the analog semiconductor firm reporting continued weakness in sales; the firm's managers indicate they remain confident that the long-term growth patterns in the industry will justify their investment.

Looking forward, only one-third of manufacturing respondents were negative about the outlook. Most of the rest were optimistic or "cautiously optimistic."

Selected Business Services

Consulting and advertising contacts in the First District report a generally strong first quarter and were positive about their firms' recent performance and near-term outlook. Marketing and advertising contacts note an uptick in growth due to clients in stronger financial positions and with more money to spend. Several contacts report robust demand for health care consulting services as the industry adapts to massive changes attributable in part to the Affordable Care Act. Economic consulting remains strong because of high levels of complex high-stakes litigation; management and strategy consulting contacts cite improved business conditions as clients have become more optimistic and seem to believe that it is time to invest for future growth. The only contact to report a bad quarter works mostly with the federal government and has been heavily affected by fiscal contraction.

Contacts generally report cost increases around 2 percent and most firms either raised their rates between zero and 5 percent, or plan to do so later in the year. Several firms have done no hiring because of strong recent hiring or a desire to wait until stronger demand seems more certain. Other firms report stronger hiring, particularly related to health care consulting, in order to deal with increasing demand.

Most contacts expect growth to remain strong or to pick up through the rest of 2013. One exception is a government contractor who is too uncertain about future fiscal policy to offer a forecast. Other respondents seem minimally concerned about fiscal issues, the European debt crisis, and the state of the macro economy, a change from the recent past. One contact specifically notes that client businesses seem to have become comfortable with the level of uncertainty in the economy and are deciding to move forward with investment and business expansion rather than wait for more clarity; several other contacts' reports are consistent with this characterization.

Commercial Real Estate

Reports from commercial real estate contacts in the First District contain much good news. Boston contacts uniformly remark that the office leasing market has firmed up in recent months and that the vacancy rate is down significantly from one year ago. Activity is particularly strong in the seaport district, but financial district towers are also seeing absorption of long-vacant space. Investment sales

activity in greater Boston remains brisk, especially for multifamily structures. Planned construction projects in Boston picked up considerably, with a focus on mixed-use projects, and should lead to job gains for the sector moving forward. In Hartford, the state government purchased a large downtown office tower, absorbing a large block of Class A space, boosting business sentiment and, it is speculated, helping put upward pressure on rents. In Portland, the retail property market saw healthy leasing activity and investment sales activity picked up modestly. In Providence, progress continues on some large office leasing deals (despite not yet leading to completions), investment sales activity continues to rise, and business sentiment is seen as increasingly optimistic. On the downside, Hartford saw stagnant office leasing and virtually no construction activity, while Portland's office vacancy rate remains stubbornly high at 12 percent. Small-scale commercial real estate loan demand remains well below last year's pace, according to one regional lender. Construction materials costs are on the rise, putting pressure on profit margins at small firms in particular.

In Portland, property fundamentals are expected to remain flat despite forecasts of healthy transaction volume and a possible increase in hiring by some large firms. In Hartford, the outlook remains cautiously optimistic. In Providence, upside risks to absorption and rents remain, while the federal sequester poses a threat to the state's defense industry. In Boston, one contact expects improvement in fundamentals to remain slow while another expects absorption to accelerate if employment growth continues at its current pace. Boston is expected to remain a magnet for investors owing to its strength in the health and education sectors. However, Boston contacts continue to express concern over property valuations that appear high in relation to income-growth potential.

Residential Real Estate

Strong consecutive months of year-over-year growth in single-family homes sales halted in February, with some New England states experiencing marginal increases and most observing a decline. According to contacts, buyer demand remains strong, but dwindling inventory levels have hampered growth in sales. Meanwhile, median sale prices across the region rose from a year ago. Contacts attribute the price rise to the declining stock of distressed properties compared to a year ago as well as to the general decline in inventory reducing supply relative to demand. Particularly in urban areas throughout New England, decreasing inventory levels have placed upward pressure on prices. In the Greater Boston area, contacts report that multiple bids on properties have become more common as inventory continues to dwindle.

Contacts express concern that low inventory levels in the next several months could discourage buyers and continue to be a significant factor limiting the growth of sales. On the other hand, inventory levels may rise with the beginning of the busy spring season. In addition, rising prices will eventually lure into the market sellers who have been waiting for the value of their homes to pick up before listing them.

SECOND DISTRICT--NEW YORK

Economic growth in the Second District has picked up somewhat since the last report. Business contacts continue to report moderate input price pressures but most report their selling prices remain steady. There has been fairly broad-based strengthening in labor market conditions. Retailers report that sales have generally been strong and ahead of plan in March, and auto sales have remained fairly robust. Tourism activity has generally been strong in recent weeks, though Broadway theaters have been in a bit of a slump. Commercial and especially residential real estate markets have strengthened since the last report. Finally, bankers report widespread increases in loan demand, continued narrowing in loan spreads, and further modest declines in delinquency rates.

Consumer Spending

Retailers report that sales were generally brisk in March. One major chain reports that same-store sales were ahead of plan—especially in and around New York City—and up modestly from March 2012 levels. A contact in upstate New York also reports that mall sales were brisk in March and up from a year ago, following a tepid performance in February; some of the recent strength is attributed to Canadian shoppers. Inventories are reported to be in good shape, prices are characterized as steady, and no unusual discounting is reported.

Auto dealers in the Buffalo and Rochester areas report that new vehicle sales have remained fairly strong since the last report. February sales were roughly on par with comparable 2012 levels, despite an exceptionally strong performance a year ago; March appears to be shaping up as a solid month as well. Used vehicle sales are reported to have softened a bit, but this is largely attributed to attractive deals in the new car market. Wholesale and retail credit conditions for auto purchases are reported to be in good shape.

Tourism activity has been mostly robust since the last report. Manhattan hotels report continued brisk business in February and March: revenue per room was up nearly 15 percent, driven by a combination of high and rising occupancy rates and escalating room rates. Hotels in the outer

boroughs continue to see fairly strong business, partly reflecting ongoing demand from Sandy recovery workers, and also from displaced residents. On the other hand, Broadway theaters report some weakening in both attendance and revenues since mid-February; they have been running below comparable 2012 levels by roughly 8 percent and 4 percent, respectively. Finally, consumer confidence in the region has ebbed somewhat. The Conference Board's survey of residents of the Middle Atlantic states (NY, NJ, Pa) shows confidence retreating in March after rising in February, and Siena College's survey of New York State residents shows a similar pattern.

Construction and Real Estate

Residential real estate markets in the District have shown increasingly widespread signs of improvement in recent weeks. New York City apartment rents, which had flattened out in the final months of 2012, have accelerated in early 2013 and are reported to be up 6-7 percent from a year ago in Manhattan and by somewhat more in Brooklyn. With respect to the city's co-op and condo market, a major appraisal firm reports that sales volume has strengthened, while the inventory of apartments for sale is down sharply to one of the lowest levels on record. Most of the new development is at the upper end of the market, while low inventories across the rest of the spectrum have begun to drive up selling prices across New York City, as well as in Westchester County and Long Island. Multiple offers (bidding wars), though hardly the norm, are becoming more frequent across the region. Prime areas of Brooklyn, where market conditions are particularly strong, are reported to be seeing a good deal of commercial-to-residential conversion. Similarly, an expert on northern New Jersey's housing market reports continued improvement in market conditions: the volume of distressed properties there has been shrinking, with noticeably fewer homes moving into delinquency or foreclosure recently. Still, prices have moved up only modestly, held back by a slow foreclosure process. Buffalo-area Realtors also report strong market fundamentals—declining inventories and fairly rapid price appreciation.

Commercial real estate markets across the District have also shown signs of improvement in the first quarter. Office vacancy rates continued to decline across Manhattan, and asking rents rose—particularly in the Midtown South area—while vacancy rates edged down and asking rents were little changed in Long Island and northern New Jersey. Office vacancy rates in New York City and Long Island are currently at their lowest levels in a number of years. In contrast, office vacancy rates remain near multi-year highs in northern New Jersey, as well as in Westchester and Fairfield counties; one New Jersey contact describes new construction activity there as “moribund”. In New York City, though, commercial construction activity has been more robust, particularly in Lower Manhattan, reflecting ongoing work on the World Trade Center complex and a new major transit hub and complex. Industrial markets have been mixed: vacancy rates are down and rents up fairly sharply on Long Island, whereas both are little changed at sluggish levels in northern New Jersey, and in Westchester and Fairfield counties.

Other Business Activity

Contacts in both manufacturing and other sectors report steady business activity in recent weeks, while they remain broadly optimistic about prospects for 2013. In general, price pressures are reported to be steady and moderate in the manufacturing sector but more widespread among service-sector businesses; a small but growing number of service-sector contacts say they are increasing their selling prices.

There are growing signs of improvement in the job market. In general, more business contacts indicate that they plan to increase than reduce staff in the months ahead. A major employment agency reports that demand for temps remains strong, and that firms are also hiring more full-time workers, as well as transitioning more temps to full-time positions. Qualified job candidates are increasingly hard to find, and more job-seekers are now getting multiple job offers. An employment agency contact reports increased hiring activity from a broad cross-section of industries, including financial services and publishing, which had been sluggish. Another contact in

the employment services industry notes particularly strong demand for IT workers. While starting salary offers remain fairly stable in general, employers are reportedly often willing to pay top dollar for tech workers with specialized skills.

Financial Developments

Small- to medium-sized banks report an increase in demand for commercial loans and mortgages but little change in demand for consumer loans and residential mortgages. Bankers report an uptick in demand for refinancing. Credit standards are reported to be unchanged across all loan categories. Respondents indicate a decrease in spreads of loan rates over costs of funds for all loan categories—particularly for consumer loans, where roughly one in four bankers reports lower spreads and no respondent reports higher spreads. Respondents also indicate continued decreases in average deposit rates. Finally, bankers report continued modest declines in delinquency rates on all categories of loans.

THIRD DISTRICT – PHILADELPHIA

Aggregate business activity in the Third District has maintained the modest pace of growth that was evident during the previous Beige Book period. In particular, general services, staffing, tourism, and commercial real estate leasing continued to expand at modest rates. General retail activity and residential construction appear to have decelerated somewhat, to a modest rate of growth. Sales of new and used autos maintained a moderate rate of growth as did residential real estate sales. Transportation services accelerated to a moderate pace of growth this period. The manufacturing sector reported slight increases in overall demand – a pickup since last period. Loan growth at Third District banks softened – growing little, while credit quality continued to improve. Resorts in the Pocono Mountains maintained good activity, as they shifted from their winter to spring season. Casino revenues continued to decline. General price levels, as well as wages and home prices, were reported to have increased slightly overall – similar to the last Beige Book period.

The overall outlook for modest growth remains the same as those views expressed in the last Beige Book. While some uncertainty remains as sequestration unfolds, contacts express greater confidence in the underlying strength of the economy. However, many contacts continue to hold off on their plans to expand capacity and hire more staff.

Manufacturing. Since the last Beige Book, Third District manufacturers have reported that orders and shipments have risen slightly. The makers of food products, lumber and wood products, fabricated metals, industrial machinery, electronic equipment, and instruments have reported gains since the last Beige Book. The makers of primary metals reported lower activity. Contacts have attributed the greatest gains to ongoing auto-related demand and growing demand from housing-related sectors; the greatest uncertainty was attached to military-related sectors.

Third District manufacturers remained optimistic that business conditions will improve over the next six months; their optimism is expressed broadly across nearly all sectors. A contact from a lumber and wood products firm reported the best growth prospects in five years due to a firming housing market; another wood products firm was hiring to expand capacity to meet growing demand. However, firms overall have somewhat lowered their expectations of future hiring and their plans for capital spending since the last Beige Book.

Retail. Third District retailers reported modest growth overall in February and March. After a falloff in sales (year over year) at many malls in February, contacts report that March sales were stronger and that an early Easter should boost the month's final results. During March, stores had increased their promotions to move spring apparel to make way for the arrival

of the summer lineup; meanwhile, lingering cold weather had shoppers still searching for appropriate winter wear. In contrast, shoppers enjoyed warmer overall temperatures last year, including one 80-degree day during March to splurge on spring clothes.

Although February ended with softer sales, auto dealers have continued to report a moderate pace of overall sales growth since the last Beige Book. Growth in sales has been as strong as last year despite worse weather, which has created up-and-down weekly sales patterns. A late March snowstorm and an early calendar-year appearance for Passover and Easter may have dampened sales in the final week of March. Dealers sustained a positive outlook but maintained lean inventories. Contacts reported that nearly half of the dealers plan to add staff, especially for sales and service. Most of the remaining dealers expect no change in staff levels.

Finance. Overall, loan growth among Third District financial firms has softened somewhat since the previous Beige Book – growing little if at all. Contacts suggested the lull might be partially explained by the relative dearth of big deals in the wake of the fourth quarter frenzy, plus more immediate concerns for the pending sequestration impacts. Mortgage refinancings as a percent of total mortgages fell at many firms (often from as much as 90 percent to 75 percent). Total loans secured by any real estate fell slightly during the period. Most bank contacts report little change in credit standards and slow, steady gains in quality; many continue to report aggressive behavior from some of their bank and nonbank competitors. Financial institutions remain optimistic about future growth; however, the horizon for this growth appears farther away.

Real Estate and Construction. Homebuilders reported that contract activity was near plan for February and March. Modest year-over-year growth rates were slower than last period; however, more new homes were rising from the ground in the first quarter of 2013 than in any year since 2008. Compared with historical patterns, current new construction tends to be smaller, more affordable, more rental, and more urban. Builders are prepared to hire if current trends continue but are reporting that good labor is increasingly scarce. Residential brokers reported little change in the moderate pace of sales; however, year-over-year growth in February was modest compared with last year when weather was unseasonably warm. The existing inventory of homes continues to fall, and bank contacts reported that investor loans used to convert residential properties to rentals are increasing.

Nonresidential real estate contacts reported little change overall – maintaining modest growth in overall leasing activity and slight growth in construction. A drop-off in the recently high level of contract values being bid for construction of public utilities projects was partially offset by bids for residential construction (including a \$200 million high-rise apartment and a university dorm project). Many contracts for repair work from Hurricane Sandy have yet to go to

bid. Investors appear to have increased development activity in Delaware's shore communities in expectation of attracting more tourists from New York and New Jersey. Overall, contacts are more optimistic, citing increased inquiries, more commitments to decisions, rather than deferrals, and more deals to approve.

Services. Third District service-sector firms have maintained a modest pace of growth overall since the last Beige Book. Resorts in the Poconos were still enjoying an extended ski season, as their golf season was getting underway. Moderate growth through their winter season was boosted by early spring holiday weekends. Expectations that the positive trend will continue were buoyed by strong bookings for Memorial Day. Strong, early bookings for summer were also reported by the operators of Delaware shore hotels, who report getting more inquiries from New Jersey and New York residents this year. However, casino revenues for February fell by double digits in Atlantic City and by nearly eight percent throughout Pennsylvania from the prior-year levels.

In other sectors, staffing firms reported small increases in billable hours over the past month and project the trend to continue for three to six weeks based on their flow of work orders. Activity at logistics and transport firms grew moderately. However, firms with defense-related work and other entities dependent on federal money (e.g., higher education) are now anticipating somewhat lower levels of employment and activity for the remainder of this year. Overall, service-sector firms remain generally optimistic about future growth.

Prices and Wages. Overall, price levels continued to increase slightly, similar to the previous Beige Book. Manufacturing firms reported only modest cost pressures and a slight decline in prices received – essentially unchanged from last period. Auto dealers reported no changes in pricing. Homebuilders continued to note higher prices, especially for lumber and labor costs. Higher-end homebuilders reported some ability to make price increases stick. Real estate contacts continued to report that low-end house prices are firm or rising slightly, while high-end home prices are still falling in most markets. Outside of homebuilders, contacts continued to report that wages rose only slightly, if at all. Contacts continued to relay a wide range of costs and strategies to provide medical insurance benefits for their employees; their decision processes remain fraught with confusion and uncertainty.

FOURTH DISTRICT – CLEVELAND

Business activity in the Fourth District expanded at a moderate pace during the past six weeks. Manufacturing orders and production were mostly higher. The momentum seen in residential construction since the beginning of the year, including multi family, has been maintained. Nonresidential construction activity increased slightly, but remains below levels seen in the second half of last year. Retail sales volume between mid-February and mid-March was higher relative to the lackluster post-holiday period, while new motor vehicle sales posted moderate gains on a year-over-year basis. Conventional and unconventional natural gas and oil production was stable, but a pickup is expected later in the year as additional gas processing units come on line. Output at coal mines trended lower. Freight transport volume exceeded projections made late last year. Demand for business and consumer credit was higher when compared to early in the first quarter.

Hiring was sluggish across industry sectors, although the pace has picked up among home builders since the start of the year. Staffing-firm representatives reported that the number of job openings and placements rose slightly, with vacancies found primarily in industrial production. Wage pressures were contained. Input prices were stable, apart from increases in construction materials.

Manufacturing. Reports from District factories indicated that new orders and production were mostly higher during the past six weeks. Companies seeing the most activity were suppliers to the residential construction, shale gas, and transportation industries. Manufacturers serving the defense and commercial building industries experienced some weakening in new orders. Exports to Pacific Rim countries improved, while exports to Europe diminished. Compared to a year ago, manufacturing activity was mixed. Steel producers and service centers reported that the pickup in shipping volume early in the first quarter has leveled off. Excess steel produced in China and Europe is now being imported into the United States in larger quantities. Auto production at District plants rose at a moderate pace during February on a month-over-month basis. Compared to a year ago, production numbers were little changed. Many manufacturing contacts remain cautiously optimistic about near-term growth prospects.

Capacity utilization rates stood within their normal ranges. Steel producers reported reducing inventories during the past six weeks, while inventories at other factories held steady. Capital expenditures were on plan for the fiscal year. Most outlays are allocated for technology that will be used to enhance productivity. Little capacity expansion is planned. Raw material and finished goods prices were flat or trended lower. Many manufacturers noted that their ability to raise prices during 2013 is likely to be very limited. Manufacturing payrolls were stable and wage pressures are contained.

Real Estate. Sales of new and existing single-family homes continued on an upward trend since our last report, and sales were higher than a year ago. Contracts were found mainly in the mid- to higher-price-point categories. Demand for multi-family housing remains strong. A developer of market-rate apartments described activity as very good. Another developer said

that demand for affordable rental units is surging. While builders expressed confidence that the improvement in the housing market will persist in the upcoming months, they still see the appraisal process and the availability of financing as headwinds to more robust growth. Reports indicated that list prices of new homes increased by 1 to 2 percent this year, which was attributed to shrinking inventories and rising prices for building materials, especially lumber and drywall. Builders have cut back on discounting.

Nonresidential contractors saw a modest increase in activity, relative to the January/February time period. The number of inquiries is rising, but many builders are underbidding in an effort to keep their resources engaged. As a result, tight margins are being compressed even further. Project work is found mainly in manufacturing, large multifamily developments (affordable, market rate, and senior), and shale gas infrastructure. Our contacts are cautious about near-term activity. Many builders pointed to uncertainty in the market and clients who are unwilling to take risks at this time. In addition, the time-consuming process of financing a project is holding back some clients. Little change was reported in prices of building materials.

General contractors (residential and nonresidential) expect subcontractors will attempt to raise their rates and push through price increases for materials by the second half of this year. The potential rise was attributed to a dwindling number of subcontracting businesses and stronger demand. Residential builders are hiring at a moderate pace, especially field personnel. Nonresidential builders are looking to hire a few project managers and back-office employees. Concerns about difficulties in finding qualified workers and escalating healthcare benefit costs were widespread.

Consumer Spending. Most retailers reported that sales volume for the period from mid-February through mid-March was higher relative to the previous 30-day period. Rising volume was particularly evident in apparel and electronics. Store managers who experienced a downturn in sales cited higher gasoline prices and taxes as contributing factors. Second-quarter sales are expected to be up slightly, when compared to the same quarter last year. Vendor and shelf prices held steady. A food producer commented that agricultural commodity prices, though elevated, are fairly stable, and he anticipates little upward pressure on prices attributable to food during 2013. Capital expenditures were on plan for the fiscal year. One retail chain projected significantly higher capital investment this year, but much of it is allocated for remodeling older stores. No hiring is anticipated, except for staffing new stores.

Year-to-date sales of new motor vehicles showed a moderate increase during February compared to the same time period a year ago. A few dealers noted that cold weather had curbed consumer enthusiasm. Buyers continue to prefer smaller, fuel-efficient cars and compact SUVs. Large pick-up trucks were big sellers in regions with significant shale gas activity. New-vehicle inventories were higher than most dealers would like. Our contacts are cautiously optimistic about sales prospects for the year, with most projecting 5 percent to 10 percent growth over 2012. However, some are concerned about fiscal policy decisions and the potentially negative

impact they could have on the economy and consumer spending. Sales of used vehicles declined during February. Leasing is trending higher, which should help to replenish the used-vehicle inventory. Financing continues to loosen except for those buyers with low credit scores. Dealers are reluctant to add to their sales staff at this time.

Banking. Demand for business credit has picked up since our last report. Although requests originated from a broad range of sectors, commercial real estate and manufacturing stood out. Loan pricing remains under pressure. Reports on consumer credit also showed a small rise in demand, mainly for home-equity products and auto loans. Bankers noted a slight drop-off in residential mortgage activity; however, there was a definite shift in applications from refinancing to new purchase. Delinquency rates held steady or declined across consumer and commercial loan categories. No changes were made to loan-application standards. Aggregate core deposits grew; customers continue to transfer monies from non-liquid to liquid accounts. Bankers remain very concerned about shrinking net interest margins. In response, some are considering raising fees in all areas. On balance, there was little change in payrolls. Two bankers reported rising employment numbers due to acquisitions.

Energy. Coal production continued to trend down across the District, with lower production projected for the near term. One producer commented that demand from electric utilities has risen slightly due to an extended period of cold weather and an uptick in natural gas prices. Spot prices for metallurgical and steam-coal are up somewhat. Output from conventional and unconventional oil and natural gas wells was steady during the past couple of months. In the wet gas regions of Ohio and West Virginia, output should begin to increase later in the year as newly constructed gas processing units come on line. Well-head prices for oil and gas rose slightly. Rig count in the District was stable during the first quarter. Capital expenditures were at targeted levels, with little change expected. Production equipment and material prices were flat across most categories. Oil and gas payrolls held steady, while coal operators reported additional layoffs.

Freight Transportation. For the most part, our contacts reported that shipping volume was somewhat higher than expected for this time of year, although no product area stands out. Freight executives are more optimistic about growth prospects than earlier in the year, and some believe that their growth projections for 2013 may be too low. Diesel-fuel prices have started to trend down from high levels, which carriers passed through via surcharges. Costs associated with equipment and maintenance items were stable. Capital spending was generally down in the first quarter of this year relative to late last year. However, our contacts believe that spending will begin to pick up in the second quarter. One executive stated that he has an aggressive spending plan in place, which includes capacity and footprint expansion. Hiring is for replacement and capacity expansion. New hours-of-service regulations (federal) may prompt additional hiring, but it will put upward pressure on shipping prices. Wage pressures are contained.

FIFTH DISTRICT—RICHMOND

Overview. The District economy grew moderately overall in recent weeks, although activity varied by sector. Manufacturing production continued to expand but at a somewhat slower pace. Revenues at non-retail services firms steadied at moderate growth, and tourism strengthened. Retail sales contracted, with the notable exception of robust light vehicle sales. Lending remained stable, with a slight uptick in demand for residential mortgages. The residential real estate sector generally strengthened, and commercial real estate and construction markets improved. Cold, wet weather hindered spring plantings by farmers, while oil and natural gas production maintained a moderate pace during the past six weeks. Labor markets were mixed since our last report. Manufacturers' input and finished goods prices moved up at a slightly slower rate, and wage increases also slowed. The pace of price change slowed at services firms, while wage increases in that sector were more widespread. Retail prices rose more slowly, and average retail wages declined.

Manufacturing. Fifth District manufacturing production expanded at a somewhat slower pace since our last report. A textile maker reported that his business was slow with the exception of automotive products. He expected a pickup in non-automotive business during the next few months, however. A producer of electrical components told us that business was poor in the U.S. but good in Europe and Latin America. Additionally, a textile manufacturer indicated that while sales levels had improved, his outlook remained cautious. Moreover, a dental equipment producer noted that work volumes had increased earlier this year, but that the market recently softened. On the other hand, a manufacturer of technical foam products commented that sales through the first quarter of 2013 had been solid and he expected a strong year. According to our latest survey, prices grew at a slightly slower rate for both raw materials and finished goods.

Ports. We received a variety of reports on District port activity. A port executive commented that European-bound vessels were leaving the port lighter than in the past, which he attributed to weaker economies there. In particular, exports of construction and agricultural equipment were down since the start of 2013. In a smaller District port, container shipments matched year-ago levels, while exports of lumber and plywood recently picked up, and corn and grain exports from the Midwest were up over last year's low, drought-related levels. A contact in West Virginia remarked on port bottlenecks of coal exports. Container traffic increased at larger District ports, with continued strength in trade of auto parts. Drivers of import growth in recent weeks were consumer housing goods such as furniture and flooring. The inland port in Greer, South Carolina remained on target to officially open in the third quarter of 2013; that port is expected to shift cargo from trucks to railroads.

Retail. Retail sales fell in recent weeks in most categories, and shopper traffic was down. In Virginia Beach, a store manager at a chain discount store commented that persistent cold weather

softened overall sales, particularly sales of seasonal items. In contrast, a few surveyed retailers and wholesalers in construction-related lines indicated that revenues rose over the reporting period. Also, auto sales remained constant at high levels. Consumer confidence, improved stability in middle-class home values, and low interest rates underpinned strong sales and good performance on auto financing. Contacts in the industry noted that used car prices remained relatively high, narrowing the spread relative to new car prices. Survey respondents indicated that overall, retail price increases were less prevalent since our last report.

Services. Activity at services firms remained steady at a moderate pace. Seasonal businesses such as tax services and landscaping reported higher revenues, while most other services providers noted little change. Prices at services firms rose at a slower pace, according to our latest survey.

Tourism generally increased over the past month, although most areas reported delayed spring weather. Cold weather in the nation's capital moved the Cherry Blossom Festival's peak bloom time into April. A contact on the outer banks of North Carolina commented that despite cool weather, Easter and spring break brought plenty of tourists. In addition, an upscale resort in western North Carolina had higher bookings. A contact in Charleston, South Carolina noted that the addition of a national airline is expected to strengthen the local hospitality industry. Several hoteliers and rental agents across North Carolina expected to be able to raise transient rates by three to six percent this year, but they anticipated a decline in government-rate bookings as a result of sequestration.

Finance. Loan demand remained relatively stable since our last assessment. Although most bankers reported a slight uptick in demand for residential mortgages, they noted that demand for both commercial mortgages and other business loans flattened. An exception was a banker in North Carolina who cited a modest increase in business loan demand driven by the need to replace assets. In addition, no significant changes in delinquencies or credit quality were reported, apart from improvement reported by an Eastern Shore banker and a West Virginia contact. Bankers indicated that competition continued to intensify, compressing already-tight margins. A few lenders said that their competitors were lowering collateral requirements and fixing interest rates for a longer period, just to close deals. Contacts also reported a decrease in customers' willingness to take on debt. For example, a Virginia banker observed that prospective homebuyers now request a specific monthly payment and no longer inquire about the maximum amount for which they could qualify.

Real Estate. Residential real estate activity generally strengthened in this reporting period. A contact in North Carolina stated that residential real estate was booming and inventories were low. A Realtor in the Washington, D.C. area reported an increase in purchases for renovation and resale. He stated that inventory was down thirty-five percent from last year, and some developers were offering all cash, non-contingent contracts for well above list price. Similarly, a Realtor in the metro-Richmond area said foot traffic rose, which he attributed to the limited supply of homes, pent up demand, and low interest

rates. A contact in Charlotte reported that low inventories of residential building materials had put building permits on hold. Similarly, a source in Hampton Roads, Virginia reported that sequestration had put potential buyers on the sidelines.

Commercial real estate and construction markets improved since our last report. A Richmond Realtor reported a steady increase in leasing activity. A source in Charlotte cited a rise in land and retail investment transactions and more hospitality-related renovations. Most contacts described a tight supply of Class A office space, with positive absorption and declining vacancy rates. Several Realtors said that discounts could still be found for Class B or C space. A representative of a large construction firm in Baltimore reported that activity was very strong, especially for healthcare buildings and data centers, and the outlook was “extremely positive.” A contact in the Washington, D.C. area also reported several large projects under construction.

Agriculture and Natural Resources. Cold temperatures and wet weather delayed land preparation and hindered spring plantings in the agricultural sector. Hay supplies were running low in some regions, resulting in higher demand for supplemental feeding. However, a contact on the Eastern Shore of Maryland stated that poultry production and agriculture were doing well, grain and land prices were good, and the overall outlook was positive.

Conventional oil and natural gas production maintained a moderate pace and the rig count in West Virginia was little changed since our last report. Coal production declined. A source in West Virginia attributed the drop to displacement of coal by natural gas, although coal exports had partially offset lower domestic demand.

Labor Markets. Assessments of labor market activity were mixed since our last report. On the one hand, manufacturing firms in the Carolinas reported temporary layoffs due to softness in orders, and contacts in sectors from real estate to wholesale trade to manufacturing said that they were reducing staff or not expanding due to the Affordable Care Act. On the other hand, a Maryland firm planned to add 200 to 250 engineers as a result of the recent pick-up in construction, and a lumber firm increased its average employee work week. Moreover, contacts from a number of temp agencies cited stronger demand for workers, resulting in part from uncertainty about federal fiscal policies. The highest demand was for information technology workers; short supply pushed up their wages. Demand for telecommunication workers picked up, as carriers upgraded systems. Additionally, demand for automobile industry workers strengthened. According to our latest surveys, average wages at non-retail services firms rose more quickly, while manufacturing wages rose at a slower pace in recent weeks and retail wages declined.

SIXTH DISTRICT – ATLANTA

Summary. Sixth District business contacts reported that economic activity continued to advance at a modest pace from mid-February through March. Reports across sectors were generally positive and expectations for the coming months remained optimistic.

Retail reports were mixed with some retailers citing improved sales and others feeling the pinch from a constrained consumer. Hospitality contacts reported healthy activity in both leisure and business travel. Homebuilders and brokers experienced further improvements in sales and prices of new and existing homes, and inventories continued to decline on a year-over-year basis. Commercial contractors noted a strong year to date as construction levels improved from late last year. Overall, manufacturing activity remained positive as new orders and production increased. Loan demand remained steady according to bankers. Payrolls continued to grow at a tepid pace as firms remained reluctant in hiring due to uncertainty over fiscal policy and healthcare reform. Prices remained stable and most firms continued to report having relatively little pricing power.

Consumer Spending and Tourism. District merchants reported mixed results from mid-February through March. Several contacts indicated improvements in profit margins and sales over the last three months, while others noted that they experienced the result of consumers taking a hit with the expiration of the payroll tax cut, increased fuel prices, a delay in income tax refunds, and increased health insurance premiums. Yet, even with these challenges, most retailers remained reasonably upbeat. District automotive contacts cited favorable sales for the same time period.

Travel and tourism activity remained robust and continued to exceed expectations, especially in the leisure segment. Although government and business bookings decreased due to location restrictions and/or budgetary constraints, overall demand remained healthy. Concerns that gas prices could dampen summer travel continued; however, hospitality contacts anticipate activity to still exceed 2012 levels. International visitation for leisure and convention travel continued to be a strong contributor to growth despite the strength of the dollar.

Real Estate and Construction. According to District brokers, housing markets across the region continued to improve. Recent sales growth was described as strong on a year-over-year basis. Existing home inventories continued to contract and brokers noted that this was restraining sales. Furthermore, many reported receiving multiple offers on properties, particularly at the low-end of the market. Most indicated that home prices rose modestly compared with a year earlier. Appreciation was strongest among Florida contacts. Overall, the outlook for existing home sales growth over the next several months remained positive.

Similar to our last report, homebuilders reported that recent new home sales were ahead of year earlier levels, and they noted improving levels of buyer traffic across the region. Just over half said that new home inventories were below the year-ago level. The portion of builders characterizing home prices as up relative to a year ago also rose compared to our previous report. Reports also cited that new home construction was ahead of last year's level. Contacts remarked that access to construction financing had improved somewhat from late last year, but the majority continued to report that the number of actual loans made was still short of demand. The outlook for construction activity and new home sales over the next several months remained positive with most anticipating levels to be slightly ahead on a year-over-year basis.

District commercial real estate contacts indicated that the first quarter of this year had started off solid compared with the end of last year. Commercial brokers reported that net absorption was positive. Contacts also noted growing optimism as businesses in the office and industrial sector began to position themselves for growth over the next 12 to 18 months. However, the demand for retail space remained soft across most of the region. Contacts remarked that investor interest had spread to secondary and tertiary markets, particularly in the apartment sector where demand had been especially strong. Commercial contractors cited that construction improved from late last year and backlogs were up as well. Activity was dominated by build-to-suit projects. Most contacts expect District commercial real estate markets to improve further this year.

Manufacturing and Transportation. Regional manufacturers reported that activity expanded for the third consecutive month in March. Increases in new orders, production, employment, and finished inventory contributed to the highest level of manufacturing activity since May 2012. Contacts noted profit margins slightly improved from mid-February through March. However, they do not expect production to be as high in the coming months as they had in our previous report.

District trucking contacts reported a slowdown in volume, citing reduced imports of retail goods from west coast ports, along with poor weather conditions. Still, volumes were ahead of year earlier levels. Strong movement of housing-related materials was cited as the housing recovery continued. Railroad companies described activity as flat to slightly down. Chemicals and oil and gas showed the strongest growth, while coal reflected some softening, particularly in export of thermal coal. Intermodal growth remained solid and the movement of forest products also improved. Domestic air freight traffic was up slightly, and international tonnage grew compared to the same period last year, marked by increases in Asian volumes and exports to Europe and Latin America, specifically Brazil.

Banking and Finance. Driven by historically low rates, consumers continued refinancing mortgage loans and businesses continued restructuring debt. Competition remained intense for high quality loan applicants and community bankers noted that large regional and national banking organizations were more willing to offer lower fixed-rate, longer-termed loans to attract these customers. Many community banking contacts indicated that their institution had exited the mortgage lending business altogether because of increased regulations. Some stated that commercial real estate loan demand had increased, particularly for branded hotel construction, healthcare, and multi-family projects. Banks also cited more willingness to lend to small businesses; however, the overall demand for loans and credit line usage continued to remain low. Credit spreads remained tight and some bankers reported downward pressure on loan pricing.

Employment and Prices. Since our last report, payroll growth continued to increase at a lackluster pace across the District, though contacts continued to report that uncertainty over fiscal policy and healthcare reform were contributing to reluctance in hiring. In Florida and Georgia, the two states in the District with the largest concentrations of employment, unemployment rates declined slightly since the previous report, while unemployment rates have fluctuated in the four other states due to changes in the size of those states' labor force.

Input costs remained mostly stable. Increases in prices for fuel and construction materials were viewed by most firms as transitory. Year-ahead unit cost expectations were 1.9 percent in February and March, roughly unchanged since the beginning of the year, according to the Atlanta Fed's Business Inflation Expectations Survey. Most businesses noted very little pricing power. Exceptions were transportation contacts who were able to successfully cover cost increases using fuel surcharges, and retailers, whose profit margins improved as sales levels ticked up somewhat over the reporting period.

Natural Resources and Agriculture. The energy industry remained an especially bright spot in the region. In particular, projects to increase the Gulf Coast's liquefied natural gas (LNG) export capacity—through investment in new LNG export facilities at ports and new transportation infrastructure, like pipeline and LNG tanks—were strong drivers of capital and labor demand.

Drought conditions improved significantly in Georgia, southeastern Alabama, and the Florida panhandle. Since the last report, monthly soybean and corn prices rose moderately, while broiler prices reached record highs. Cotton prices continued to be below year-ago levels, but rose modestly since the last report. Driven by increasing global demand and low interest rates, contacts reported continued investment in new, more efficient equipment reducing both labor and fuel costs.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District expanded at a modest pace in March. In general, contacts remained cautiously optimistic about the economic outlook. Growth in consumer spending edged lower, while growth in business spending picked up. Manufacturing production growth slowed. Residential construction continued to rise at a moderate pace, and nonresidential construction increased slightly. Credit conditions remained favorable. Cost pressures were largely unchanged, and wage pressures remained moderate. Prices for corn, soybeans, milk, and hogs fell, while cattle prices were little changed on net.

Consumer spending. Growth in consumer spending edged lower in March. Retailers reported higher inventory levels in part because lingering winter weather delayed the introduction of spring-related merchandise sitting in their warehouses. Some contacts indicated that the end of the payroll tax credit was having an increasingly negative effect on retail sales. Nonetheless, sales during the Easter holiday were largely in-line with expectations. Home improvement and clothing stores reported lower sales than during the previous reporting period, but discount stores noted an increase in sales of apparel. Sales of furniture and appliances also rose, buoyed by the recent upswing in the housing market. In contrast, auto sales leveled off. Dealers are still optimistic that sales will rise further year than last year, and are building inventory for the spring selling season. Used vehicle prices remained elevated, boosting trade-in values. In addition, dealers noted that customers' credit profiles continue to improve, allowing more of them to qualify for auto loans.

Business spending. Growth in business spending picked up in March. Inventory levels increased slightly, and spending on equipment and software and on structures picked up. However, a number of manufacturing contacts reiterated that they plan to make capital expenditures this year only as necessary, delaying investments because of uncertainty surrounding the economic outlook. Labor market conditions improved slightly. Hiring continued to increase. Contacts indicated that there is still strong demand for talent in skilled professional and manufacturing jobs, and that shortages of qualified candidates remain in many of these occupations. In addition, a staffing firm reported an increase in demand for its services from the manufacturing sector. Other signs of improving labor demand also were reported, such as greater competition among employers to fill internships this year and a stronger job market for new college graduates.

Construction/real estate. Construction and real estate activity increased in March. Demand for residential construction rose, reflecting both continued strength in multifamily construction and

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an improving single-family housing market. The gains have helped buoy confidence among homebuilders. Development of single-family homes in urban areas picked up some after years of limited activity. More generally, home prices have increased for both new and existing homes, with inventories of homes for sale shrinking. Growth in nonresidential construction, particularly for smaller retail stores and in the industrial sector, continued to be moderate. Commercial real estate conditions also continued to improve, with rents increasing and vacancy rates decreasing.

Manufacturing. Growth in manufacturing production slowed in March. Several contacts speculated that the uncertainty surrounding sequestration had affected their customer's orders. However, they had yet to see much evidence of this in their shipments. That said, a contact did note that his military customers were actively seeking to squeeze out any potential inefficiencies in their supply chain in an effort to lower their costs in anticipation of tighter future defense budgets. Demand for steel was flat, and steel service center inventories were slightly above desirable levels. Specialty metal manufacturers reported declines in new orders, although backlogs remained elevated. Activity in the energy sector was mixed, with natural gas-related industries reporting stronger activity but the coal industry remaining weaker. Demand for heavy equipment was also mixed. Mining activity, particularly for coal, continued to decline. However, contacts indicated that construction equipment distributors and rental companies remain optimistic, pointing to the ongoing recovery in the housing market as a potential source of strength in the second half of the year. Demand for heavy and medium-duty trucks remained firm; and the auto industry continued to be a source of strength. Manufacturers of building materials and consumer products also noted an increase in demand with the exception of lawn and garden equipment.

Banking/finance. Credit conditions remained favorable over the reporting period. Credit spreads and financial market volatility continued to be low. Banking contacts reported moderate growth in business lending, especially to small businesses and for the purposes of expanding and upgrading of facilities. Real estate lending also reportedly picked up. Increased competition for borrowers was noted to be putting downward pressure on pricing and loosening commercial and industrial loan standards. Consumer borrowing also rose modestly, with a further increase in auto lending reported over the reporting period. Several financial contacts noted that the recent rise in equity and home prices appear to be boosting consumer confidence and spending. That said, a financial services industry contact indicated that consumer borrowing had been lower than anticipated given recent increases in consumer spending.

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Prices/costs. Cost pressures were roughly unchanged, on balance, in March. Commodity prices were down slightly, and energy prices remained elevated. Scrap metal prices continued to decline, and a contact in the industry speculated that weaker demand from China was largely to blame. Contacts did note some upward price pressure on raw materials such as chemicals, lumber, and concrete as well as on transportation costs, but said that pass-through to downstream prices was limited. Retailers reported mostly modest wholesale price increases. Wage pressures remained moderate, although several contacts indicated increasing concern over the rising cost of healthcare. Other cost pressures that were mentioned included higher property taxes and regulatory costs.

Agriculture. Cold weather delayed field work during the reporting period, but there was little concern expressed by contacts that planting would be seriously delayed. Corn and soybean prices dropped based on expectations of a larger crop this year and current stocks that are not as tight as anticipated. Contacts indicated that the number of soybean acres should be higher than the prior year in the District, while corn acres should be lower. Farmers seemed to increase their levels of crop insurance relative to last year. Milk prices moved lower during the reporting period, but remained above the levels of a year ago. Hog prices fell and were under year-ago levels. Cattle prices moved sideways during the reporting period, but were below the levels of a year ago. Some livestock producers were reportedly taking advantage of low long-term interest rates by refinancing and lengthening the maturity of their debt.

Eighth District - St. Louis

Summary

The economy of the Eighth District has expanded at a moderate pace since our previous report. Recent reports of planned activity in manufacturing have been positive, while recent reports of planned activity in the service sector have been mixed. Residential real estate market conditions have continued to improve throughout most of the District, and commercial and industrial real estate market conditions have also improved in many areas of the District. Total lending at a sample of small and mid-sized District banks remained largely unchanged from mid-December 2012 to mid-March 2013.

Manufacturing and Other Business Activity

Reports of plans for manufacturing activity have been positive since our previous report. Several manufacturing firms reported significant plans to add workers, expand operations, or open new facilities in the Eighth District, while a smaller number of manufacturers reported plans to lay off workers. Firms in printing, food, housewares, automobile parts, jewelry, metal, lumber products, and beverage manufacturing plan to hire new employees and expand operations in the near future. In contrast, a firm that manufactures aircraft parts announced plans to lay off workers in the District.

Reports of planned activity in the District's service sector have been mixed since our previous report. Firms in social and legal services reported plans for new hiring and expansion in the District. In contrast, firms in religious, information technology, business support, healthcare distribution, data processing, print and publishing, and transportation services reported plans to lay-off employees. Reports from retail contacts showed increases in sales and new store

openings. Sales reports from auto dealers have generally been positive, and a number of contacts in the District announced plans to open new dealership locations.

Real Estate and Construction

Home sales have continued to increase throughout most of the Eighth District on a year-over-year basis. Compared with the same period in 2012, February 2013 year-to-date home sales were up 12 percent in Louisville, 14 percent in Little Rock, 4 percent in Memphis, and 11 percent in St. Louis. February 2013 year-to-date single-family housing permits increased in the majority of the District metro areas compared with the same period in 2012. Permits increased 16 percent in Memphis and 36 percent in St. Louis. In contrast, permits decreased 8 percent in Little Rock and remained unchanged in Louisville over the same period.

Commercial and industrial real estate market conditions have continued to improve throughout most of the District. A contact in northeast Arkansas reported that commercial real estate activity was strong in the Jonesboro and Paragould area but remained flat in other areas. Contacts in Louisville noted that vacancy rates of commercial and industrial properties improved. A contact in central Arkansas reported an increase of commercial real estate activity in Little Rock, and a contact in St. Louis reported strong office leasing activity in the northwest and south portions of St. Louis County. Commercial and industrial construction activity is picking up throughout most of the District. Contacts in south central Kentucky continued to report that commercial real estate construction was strong in the downtown Bowling Green area, while contacts in Louisville reported that industrial real estate construction was strong in the Shepherdsville area. A contact in Arkansas also reported several ongoing commercial construction projects in southwest and west Little Rock.

Banking and Finance

Total loans outstanding at a sample of small and midsized District banks were virtually unchanged from mid-December 2012 to mid-March 2013. Real estate lending, which accounts for 72.8 percent of total loans, increased 1.9 percent. Commercial and industrial loans, accounting for 15.1 percent of total loans, increased 3.9 percent. Loans to individuals, accounting for 4.7 percent of total loans were largely unchanged. All other loans, accounting for 7.3 percent of total loans, decreased 14.1 percent. During the same period, total deposits at these banks increased 4.3 percent.

Agriculture and Natural Resources

Farmers in the District's states expect to plant more sorghum and soybeans in 2013 than was planted in 2012; they also anticipate planting less corn, cotton, and rice. Additionally, Arkansas and Mississippi farmers expect to significantly increase corn acreage while reducing cotton and rice acreage. As of early April, over 90 percent of the District's winter wheat crop was rated in fair or better condition, and over 60 percent was rated as good to excellent. Year-to-date coal production in the District's states (excluding eastern Kentucky) at the end of February was 4.7 percent lower than the same period last year. Similarly, coal production for February was 5.7 percent lower than February 2012.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew moderately. Increased activity was noted in consumer spending, tourism, professional services and manufacturing. Construction and real estate grew at a fast pace, the energy and agriculture sectors were steady at high levels, while mining slowed. Labor markets tightened somewhat, and wage increases were moderate. Overall price increases were modest.

Consumer Spending and Tourism

Consumer spending increased moderately. March sales at a Minneapolis-St. Paul area restaurant chain were up about 6 percent from a year ago; demand for catering services was very strong. Sales activity at a Montana mall was level from a year earlier, but warmer weather was helping boost traffic over the past few weeks. Meanwhile, same-store sales at a Minneapolis area mall were down slightly, while cold, wintry weather during March reduced traffic levels. A Minnesota auto dealer noted a solid start to 2013, and is cautiously optimistic for a very good year. Truck sales were strong at dealerships in eastern North Dakota.

The winter tourism season finished stronger than last year. Ample snow cover and cold temperatures kept winter tourism active during March in northern Minnesota and Wisconsin. A travel agency in Minnesota noted that leisure travel to warm-weather destinations was softer than last year as airfare was up from a year ago; however, bookings to Europe were higher.

Construction and Real Estate

Commercial construction activity continued to increase at a very fast pace since the last report. The value of March commercial permits in Billings, Mont., increased over 900 percent from last year. In Sioux Falls, S.D., March permits were \$14 million, up from nearly zero a year ago. A contact at a Fargo, N.D., real estate company noted that “the medical field is building like crazy.” Residential construction increased rapidly from a year ago. The value of March residential building permits in Billings nearly doubled from last year, and the value of March permits in Sioux Falls was up over 63 percent from a year ago. In the Minneapolis-St. Paul area, March residential permits were up 21 percent compared with March 2012.

Activity in commercial real estate markets increased since the last report. A Minneapolis-St. Paul area commercial real estate broker noted increased strength in the office and industrial markets. Minneapolis-St. Paul office vacancy rates during the first

quarter of 2013 were down 1.9 percentage points from a year ago to 17.7 percent. A Fargo broker noted that recent activity has increased a “fair” amount and that office vacancy is at 4.8 percent and warehouse vacancy is at 1.6 percent. Residential real estate market activity increased at a strong pace. Recent home sales were up 12 percent from the same period a year ago in the Minneapolis-St. Paul area; the inventory of homes for sale was down 30 percent, and median sale prices rose 16 percent. In the Sioux Falls area, March home sales were up 5 percent, inventory was down 18 percent and the median sale price increased 6 percent relative to a year earlier.

Services

Activity at professional business services firms increased at a moderate pace since the last report. A home inspector noted an increase in business due to more homeowners who were considering selling. A Minnesota travel agency noted an increase in business travel compared with a year ago. A Minnesota freight trade group expects volumes and rates to increase this year. A financial institution noted a significant increase in demand for loans.

Manufacturing

The District manufacturing sector continued to grow since the last report. A March survey of purchasing managers by Creighton University (Omaha, Neb.) found that manufacturing activity increased in Minnesota and the Dakotas. A Minnesota architectural glass producer announced a \$30 million expansion at a plant. A transportation vehicle maker in Minnesota was expanding its facilities. A sawmill in Montana restarted production after sitting idle for more than four years. Meanwhile, a paper mill in Minnesota cut production.

Energy and mining

Activity in the energy sector was steady at high levels, while mining slowed. Late-March oil and gas exploration decreased slightly in Montana and North Dakota from the last report, but production remained near record levels. A \$2.2 billion modernization of Minnesota’s electrical grid is under way, with an estimated \$1 billion to be spent this year. A diesel refinery broke ground in North Dakota, and a separate \$400 million refinery that will break ground this year was also announced. A copper-nickel mining development in the Upper Peninsula halted construction in response to “economic headwinds” and volatility in metals markets. An iron ore mine in the Upper Peninsula idled at the end of March.

Agriculture

The District agricultural sector remained in strong condition heading into the planting season, though persistent drought remained a threat. Early indications of planting intentions suggest District farmers plan to increase corn, soybean and hay acreage this year, with a reduction in wheat acres. An agricultural cooperative announced \$50 million in investments in the District, including a grain terminal in North Dakota and a fertilizer depot in Minnesota. Prices received by farmers increased in March from a year earlier for wheat, corn, soybeans, hay, chicken, milk and eggs; prices decreased for cattle, hogs, turkeys and dry beans.

Employment, Wages and Prices

Labor markets tightened somewhat. A company recently announced plans to add 300 information technology consultant jobs in South Dakota and North Dakota. A retailer recently announced plans to build a distribution center in Minnesota that would create 300 jobs. Businesses in eastern Montana noted continued challenges attracting and retaining quality workers due to competition from the nearby oil-drilling region. A record number of companies participated in a job fair in eastern South Dakota, reflecting the relatively high availability of jobs in the area. However, a Minnesota food company laid off 125 workers.

Overall wage increases were moderate. According to a recent St. Cloud (Minn.) Area Quarterly Business Report, 48 percent of respondents expect to increase compensation over the next six months, while 49 percent expect no change. In last year's survey, 42 percent expected to increase compensation, while 54 percent expected no change. A contract agreement was recently reached with a union representing janitors in Minnesota that would improve wages and health care coverage.

Overall price increases were modest. Minnesota gasoline prices decreased about 20 cents per gallon from late February to early April. Some metals prices also decreased since the last report. Meanwhile, bank directors noted increases in health care insurance costs. Prices for framing lumber have increased steadily over the past couple months.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy expanded moderately in March, and expectations for future activity strengthened. District contacts reported stronger-than-expected consumer spending and anticipated additional gains this spring. Improvements in residential and commercial real estate market conditions exceeded typical seasonal trends with robust sales, higher prices and brisk construction activity. Although District manufacturing activity softened, factory managers projected a rebound in orders, production, and shipments. Bankers reported stable loan demand, improving loan quality, and stronger deposits. Persistent drought hindered winter crop development, while crop insurance payments lessened the demand for operating loans. District contacts expected oil drilling activity to strengthen as seasonal demand supports higher oil and gasoline prices. The prices of raw materials for manufacturing, construction and food services rose, with some pass-through to finished goods prices. Though more companies anticipated hiring additional workers in the coming months, wage pressures remained subdued except for specialized positions at transportation, high-tech, energy and construction firms.

Consumer Spending. Consumer spending was stronger than expected in March and was expected to strengthen further in the coming months. After falling during the last survey period, District retailers reported modest, but stronger-than-expected sales in March and positive expectations for future sales growth. Lower-priced items such as apparel and hardware sold well, while demand for higher-priced premium and custom goods remained weak. Some store owners noted that the payroll tax increase and cold weather during March limited sales growth. Auto sales bounced back in March, and most dealers were optimistic that sales would rise further during the next few months. Smaller cars and used vehicles continued to sell well, while dealers reported slower demand for larger cars, trucks and sport-utility vehicles. Tourism contacts reported a rise in visitor counts compared to the last survey and expected a seasonal increase in tourism spending with warmer weather. District hoteliers indicated that occupancy rates rose with a slight drop in average room rental rates. Restaurant owners reported solid sales and slightly higher average check amounts.

Real Estate and Construction. Residential real estate activity rose sharply in March, and commercial real estate activity strengthened. In addition to a seasonal rise in home sales during the spring, real estate agents commented that pent-up buyer demand, an improving

economy and low interest rates were driving stronger sales. Low- and mid-priced homes in good condition continued to sell quickly, and some real estate contacts noted increased demand for investment properties. Brisk sales and lower home inventories spurred further home price increases. Residential mortgage lenders reported a jump in loan applications for home purchases, and some real estate contacts were concerned that appraisals were not reflecting current market conditions amid rapid price increases. Housing starts were up sharply from the previous survey, but some builders noted that a lack of available sub-contractors could constrain construction in the coming months. Sales at construction supply firms rose with increased building activity. Commercial real estate markets improved, and District contacts expected additional strength in coming months. New commercial construction edged up and was expected to gain momentum as vacancy rates trended down and rents moved higher. Commercial sales activity and real estate prices rose well above year-ago levels. Developers reported no change in access to credit.

Manufacturing and Other Business Activity. After softening in March, District manufacturing activity was expected to rebound in the coming months, and sales at transportation and high-tech service firms improved during the survey period. District manufacturing activity remained slightly below year-ago levels driven by weaker durable goods production, particularly for machinery and fabricated metal products. In contrast, non-durable goods production rose modestly with an uptick in food and chemical processing. After falling during the last survey period, the volume of new orders and shipments stabilized in March and was expected to strengthen during the next six months. Export orders, however, remained weak. Looking ahead, more plant managers planned to add workers and increase work hours to handle an expected rise in production. Some District factories and transportation firms were also making capital investments. Trucking traffic picked up, but qualified drivers were still in short supply. Business activity at high-tech firms expanded further, and sales were expected to remain strong. Some high-tech companies reported difficulty finding software developers and experienced IT technicians.

Banking. In the recent survey period, bankers generally reported stable loan demand, improving loan quality, and stronger deposits. Bankers reported steady demand for commercial and industrial loans, residential and commercial real estate loans, and consumer installment loans. Although residential real estate loan demand increased for purchases, bankers noted fewer loans for home refinancing. Bankers reported that interest rates trended lower on commercial and

industrial loans. A majority of bankers reported improved loan quality compared to a year ago, and they expected further improvements during the next six months. Credit standards remained largely unchanged in all major loan categories, and respondents reported stronger deposit growth.

Agriculture. Agricultural growing conditions remained poor in most of the District. March precipitation provided little relief to persistent drought, and the winter wheat crop was still in fair to poor condition. Despite recent declines, crop prices remained elevated due to short crop supplies, and District farmers did not plan to significantly alter their current crop mix. Livestock operators continued to post losses with falling cattle and hog prices and high feed costs. Pork exports remained weak, but beef exports edged up, partly due to less restricted trade with Japan. Operating loan demand remained soft as crop insurance payments bolstered farm income. Farmland values rose further and were expected to stay elevated.

Energy. In the energy sector, District activity remained solid and was expected to strengthen slightly heading into summer. An upswing in oil prices and an anticipated seasonal rise in demand kept the number of active oil rigs in the District above year-ago levels. Even though colder than usual temperatures reduced natural gas inventories and boosted prices, the effect was expected to be temporary and the number of active natural gas rigs in the District dipped during March. Looking ahead, some District contacts were concerned that permitting delays could constrain oil and gas exploration. Wyoming's coal production remained well below year-ago levels as more electricity was being generated from natural gas. District ethanol production held steady, but profit margins improved recently due to lower corn prices.

Wages and Prices. Wage pressures remained relatively subdued during the survey period, raw materials prices climbed, and some finished goods prices rose. More firms indicated they would be adding staff in the coming months to handle an anticipated increase in business activity, but most were not planning to raise wages. However, some companies, particularly those recruiting workers with specialized skills such as engineers, software developers, and commercial truck drivers, were increasing salaries. The cost of raw materials for manufacturing remained elevated, and some firms were raising finished goods prices. Some construction supply companies reported passing along higher prices for building materials, particularly lumber, to customers. Retail prices edged up, and retailers expected prices to trend higher during the next few months. Restaurant owners planned further menu price increases due to rising food costs.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy expanded at a slightly faster pace over the past six weeks than during the previous reporting period, when growth was moderate. Many manufacturing firms noted that activity increased since the last report. In the nonfinancial services sector, legal and accounting demand increased, although staffing firms reported sluggish demand. Retail sales and auto sales were up. Robust housing demand led to price gains, and commercial real estate activity remained strong. Lenders noted moderate growth in loan demand, and activity in the energy sector remained at high levels. Drought conditions remained prevalent in the agricultural sector. Reporting firms said prices remained stable overall, and there were limited reports of wage pressure. Employment levels were steady to up.

Prices Most responding firms said prices were stable, although housing contacts said home prices increased at a fast pace, and cotton prices increased according to agriculture contacts. Staffing firms noted no change in rates, and accounting firms said rates were flat to slightly up. Food producers said selling prices were up since January but do not expect more increases going forward. One airline said ticket prices were up slightly. Retail prices and auto prices were steady. Financial services contacts said loan pricing was flat to down. Oil prices fell slightly, as the price of WTI averaged under \$94 per barrel over the past six weeks. A late winter reduced natural gas inventories and pushed prices above \$3.65. Gasoline and diesel prices increased since the last report.

Labor Market Employment held steady or increased at most responding firms. Food manufacturers and airlines said employment had increased, and reports of scattered hiring came from some accounting and finance firms, retailers, auto dealers and transportation manufacturers. Several contacts noted difficulty finding qualified people to fill open positions, particularly in banking, auto sales and manufacturing. Staffing firms said the supply of labor was tight in the Houston energy sector.

Wage pressures remained largely subdued, although wage increases for experienced or top-performing workers were reported in accounting, legal and financial services. Increased labor costs were also noted in energy services.

Manufacturing Construction-related manufacturers said demand was flat to up slightly. A lumber contact noted a seasonal increase in demand for the first time in several years. A cement producer said demand remained strong, particularly for residential construction projects. Expectations among construction-related producers are for increases in demand, and contacts believe 2013 will be stronger than 2012. Fabricated metals producers reported a broad-based increase in demand over the reporting period. Demand reports from primary metals manufacturers were mixed and below year-ago levels.

Reports on high tech orders were mixed across customer groups. Semiconductor producers reported stronger demand from industrial users, such as automotive, but continued weak demand from

communication device and personal computer manufacturers. Most contacts expect moderate improvement over the next three to six months.

Demand for paper products fell over the reporting period; contacts remained cautious in their outlooks but expect to see an increase in May or June. Food contacts noted demand was much better than anticipated and was up from the last report and from a year ago. Respondents were making significant capital expenditures in anticipation of further increases in activity.

Transportation manufacturers noted a pickup in demand. Sales of recreational vehicles increased after experiencing a seasonal slump during the last reporting period. Demand for aviation equipment continued to rise due to a recent large project. Transportation manufacturing contacts expect 2013 to be about the same or better than 2012.

Petrochemicals producers said Gulf Coast chemical production was stronger than a year ago. Contacts noted refinery operating rates and margins were up over the reporting period, partly due to normal seasonal trends.

Retail Sales Retail sales were up since the previous report and from a year ago, according to contacts. Texas continued to perform well, and according to one national retailer the rate of sales growth in Texas outperformed the nation during the reporting period. Prices remained stable since the last report. Some contacts added employees in line with expanding operations. Outlooks for the quarter ranged from cautiously positive to good, and contacts expect steady growth for the remainder of the year.

Automobile sales were strong and picked up since the last report, partly due to seasonality. Inventories varied by manufacturer, but all contacts noted inventories were slightly lower than desired. Selling prices held steady, as the market remained very competitive. Head count was up slightly from a year ago, and hours worked were flat over the reporting period. Outlooks for the second quarter and the rest of the year were good. Uncertainty and increasing expenses are challenges that dealerships continue to face.

Nonfinancial Services Staffing firms said demand was flat or down since the last report. Responding placement firms noted activity in most sectors was sluggish, with the exception of energy-related activity in Houston and overall demand for residential construction workers. Outlooks were mixed, but better than earlier in the year. Accounting firms noted continued strong demand for their services. Demand for energy, audit, insurance, consulting work and transactions was robust, while demand for tax services remained flat. Outlooks were optimistic. Legal firms said growth in demand for their services was weaker than expected, with the exception of strong real-estate related activity. Outlooks were optimistic, with contacts expecting a pickup in activity over the next three months.

Reports from transportation service firms were positive. Railroad contacts said volumes picked up since the last report. Petroleum shipments continued to be strong, and contacts noted healthy volumes

of some construction-related products, including lumber and wood and crushed stone. Intermodal cargo volumes increased slightly, and shipping companies said small parcel shipments grew strongly, propelled by retail trade. Air cargo volumes were flat during the reporting period as increases in domestic shipments were offset by declines in international shipments.

Airline contacts said passenger demand increased slightly since the last report, in part due to spring-break related travel. Contacts expect demand to strengthen in the summer months and the outlook is for slight improvement in 2013 over 2012.

Construction and Real Estate Texas home prices rose rapidly due to strong demand and very low inventories. Some builders were still finding financing difficult. Outlooks for the single-family housing sector were positive, but price gains are expected to slow later in the year as building activity picks up. Contacts said apartment demand remains strong, in part, thanks to strong job growth and migration. Commercial real estate contacts reported that gains in occupancy and rents may be slowing property sales as owning has become more profitable. Most contacts noted banks were more aggressive with lending, and Texas office and warehouse markets were improving.

Financial Services Financial institutions reported broad-based growth in loan demand. Consumer lending improved, with solid growth in mortgage and automobile lending activity. Commercial lending grew at a moderate pace, and energy-related activity remained strong in Houston, Austin, San Antonio and the Eagle Ford area. Commercial real estate and home equity lending activity has started to bounce back from low levels, noted contacts. Non-performing loans continued to decline. Loan pricing remained very competitive. Deposits and deposit rates remained mostly unchanged. Outlooks were optimistic, and contacts expect growth in loan demand and deposits to continue in the near term.

Energy Energy activity was slightly improved, and respondents at energy-related service firms seemed more confident that the number of active drilling rigs may have bottomed out. Margins for services, particularly pressure pumping, remained tight, and contacts reported little change in pricing pressures otherwise. Contacts said drilling activity was flat over the reporting period and continue to expect improvement in the second half of the year, particularly in the Gulf of Mexico.

Agriculture Drought conditions worsened slightly across the District over the reporting period. Nearly half of the Texas wheat crop was in poor or very poor condition, and spring crops were largely being planted into very dry soil. Texas feedlots continued to run negative margins, due in part to feed costs remaining elevated. Cotton was a bright spot, with continued strong demand and rising prices.

TWELFTH DISTRICT–SAN FRANCISCO**Summary**

Economic activity in the Twelfth District expanded at a modest pace during the reporting period of late February through early April. Price increases for most final goods and services were limited, and upward wage pressures were minimal overall. Sales of many retail items rose, and most business and consumer services gained further. District manufacturing activity appeared to increase on net. Production activity and sales grew for agricultural producers. Demand for both homes and commercial real estate properties continued to expand on balance. Contacts from financial institutions reported increased loan demand.

Prices and Wages

Price increases for most final goods and services were limited. Reports were mixed for construction materials, with prices for some products such as cement, logs, and lumber edging up further; meanwhile, prices for some other metal and wood products were mostly flat. Contacts from retail grocery and restaurant chain establishments reported largely constant food prices as the prices of some of the underlying commodities have stabilized. Health-care price increases were limited, and fees for legal services held steady.

Contacts reported that wage gains were contained across most occupations, industries, and regions in the District. Restrained hiring plans and ready worker availability have held down increases in wages and compensation for most sectors and regions. A shortage of trained engineers continues to prompt vigorous employer competition and significant compensation gains for this group across a number of industries. In a few areas experiencing significant rebounds in housing market activity, wages of construction workers and experienced mortgage underwriters have risen. Contacts mentioned downward pressure on the wages for some low-skilled jobs and government employees. Most firms expect wage growth between 2% and 4% this year.

Retail Trade and Services

Retail sales rose on balance. New and used automobile sales remained at high levels. Among

computer and electronic products, sales of personal computers remained weak relative to sales of mobile computing devices, including smart phones and tablets. Demand for some gaming products and apparel picked up, with e-commerce sales growth for these items outpacing sales growth at traditional retail stores. Retail grocers reported soft sales, experiencing intensifying competition from discount and online retailers. Demand was steady for retail pet products.

Demand for most business and consumer services gained. Contacts expect more robust growth this year for various technology services, such as cloud computing and data processing, compared with modest gains at the end of last year. Food service providers reported strong sales on net, with some discount chains faring particularly well. Activity in the District's travel and tourism sector advanced, as visitor counts, expenditures, and occupancy rates climbed in Hawaii; however, reports indicated weaker activity in Southern California in recent weeks. Contacts in the health-care industry described plans to freeze hiring and scale back capital expenditures in response to the federal spending cuts.

Manufacturing

District manufacturing activity appeared to step up during the reporting period of late February through early April. Contrary to downbeat expectations from earlier in the year arising from product release challenges, production activity for commercial aircraft and parts continued to grow robustly. Manufacturers in defense-related subsectors noted furloughs, layoffs, and plant closures at some production facilities. Reports indicated that inventories of semiconductors fell at the end of last year but remain roughly in line with current demand. Pharmaceutical goods producers reported modest gains. Wood product manufacturers stated that demand grew further, fueled both by recent rebounds in domestic residential construction activity and demand from China. Demand for steel products used primarily in transportation infrastructure and nonresidential construction projects increased, although overall capacity utilization for steelmakers remained at a relatively low level.

Agriculture and Resource-related Industries

Agricultural producers noted increased sales and production activity. Demand for most crop and livestock products grew further. Agricultural producers faced mostly stable or somewhat lower

petroleum-based fuel and natural gas costs. Supplies of most raw materials were adequate. However, some contacts communicated concerns that volatile weather conditions and limited water availability in parts of the District could pass through to lower seasonal hiring and reduced agricultural output in coming months. Reports indicated that electricity and natural gas sales remained strong for both households and businesses, and natural gas inventories declined a bit further.

Real Estate and Construction

Activity in residential and commercial real estate markets continued to gain momentum, with notable gains in selected locales. Home sales climbed further in most regions, and low inventory levels coupled with healthy demand supported stable or increasing prices. Reports indicated that the pace of residential housing permit issuance increased significantly in many regions throughout the District. Rental activity for both single-family and multifamily homes was strong, based on low vacancy rates and stable rental rates. Construction of multifamily residential projects expanded further. Commercial real estate development and leasing activity increased, particularly in major metropolitan areas across the District, fueled in large part by sustained growth in the technology sector.

Financial Institutions

Contacts from financial institutions reported that loan demand improved. Ramped-up mortgage and automobile lending continued to spur growth in overall loan demand. Banking contacts again highlighted ample liquidity and generally stiff competition among lenders for well-qualified business borrowers. Contacts also pointed to a recent buildup of privately held technology companies poised for public offerings. Despite the clear potential for action, the pace of initial public offerings and new venture capital deals in the District's Internet and digital media subsectors has been relatively slow. By contrast, private equity financing has shown steady growth in recent months. Reports indicated modest improvement in credit quality for both business and consumer loans.