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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

April 2011

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

APRIL 2011

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SUMMARY¹

Reports from the twelve Federal Reserve Districts indicated that economic activity generally continued to improve since the last report. While many Districts described the improvements as only moderate, most Districts stated that gains were widespread across sectors, and Kansas City described its economic gains as solid. Manufacturing continued to lead, with virtually every District citing examples of steady improvement, often with reports of increased hiring. Retailers in the Boston District reported mixed sales results and retail sales remained weak in the Richmond District, but all other Districts experienced at least slight gains in consumer spending and the New York District cited robust sales. Business services, including freight-related activities, improved in most Districts. Loan demand was either unchanged or up slightly in most Districts, with New York, St. Louis, and Kansas City citing weaker lending. Residential and commercial real estate performance varied across Districts. Seven of the Districts described commercial real estate as slightly improved, while five noted that their markets were flat. While most Districts noted little change in their residential real estate markets, half of the Districts cited at least pockets of weakening.

Reports focusing on the near-term outlook were most often upbeat. Some Districts, however, also noted that uncertainties remained high. Boston, Philadelphia, Richmond, Atlanta, Chicago, Minneapolis, and Dallas all noted actual or expected disruptions to sales and production as a result of the tragedy in Japan. Most Districts reported signs of improvement in at least some of their labor markets and Boston, Richmond, Chicago, and Kansas City cited examples of concern among their contacts about being able to obtain certain types of skilled workers. Some businesses in the Philadelphia and Cleveland Districts still preferred to hire temporary over permanent workers.

Wage pressures were described by most Districts as weak or subdued, but higher commodity costs were widely reported to be putting increasing pressures on prices. Energy prices were cited most often, but raw materials in general were an increasing concern of businesses. The ability to pass through cost increases varied across Districts, with manufacturers

¹ Prepared at the Federal Reserve Bank of Richmond and based on information collected before April 4, 2011. 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.

generally finding less resistance to price increases than either retail or construction (where weak demand was a limiting factor).

Consumer Spending and Tourism

Consumer spending picked up modestly across most Districts since the last report. Consumers were shopping for necessities and looking for lower-priced options or promotional items in the Boston, Chicago, and San Francisco Districts. New York reported strong retail sales in February and March, but noted weaker sales at two major retail chains in New York. Retailers in the Cleveland District reported higher sales relative to a year ago, although a few contacts cited considerable stress in the low- to mid-market segments. Richmond reported weak sales, including for big-ticket items, and Boston received mixed sales reports. Big-ticket sales, particularly for home furnishings, picked up in the Boston, Philadelphia, and Dallas Districts, but remained subdued in the San Francisco District.

Automobile sales rose in most Districts. Dallas noted higher foot traffic at auto dealers and Cleveland, Atlanta, and San Francisco indicated that improved availability of credit helped to boost car sales. In the Richmond District, however, vehicle sales were generally unchanged or sluggish, while dealers in the Chicago District reported a slight decline. Contacts in several Districts expressed concern about potential supply chain disruptions due to production problems in Japan.

Tourism strengthened in the New York, Richmond, Atlanta, Minneapolis, Kansas City, and San Francisco Districts, although Japanese tourism in Hawaii dropped. Tourist activity picked up in the Minneapolis and Kansas City Districts, as visitors enjoyed late-winter sports, and early attendance at the Cherry Blossom Festival in Washington, D.C. was above average. New York noted that hotel occupancy and attendance at Broadway theaters rose above year-ago levels.

Nonfinancial Services

Non-financial service firms generally reported expansion, although Minneapolis and Atlanta heard mixed reports. Demand for business-to-business services increased in the Boston, Philadelphia, Richmond, Minneapolis, and San Francisco Districts. Boston and Minneapolis cited stronger demand for advertising and marketing services. In addition, respondents in several Districts reported higher demand for seasonal accounting services. Contacts at firms providing travel-related services in the Atlanta and Richmond Districts also reported an uptick in demand.

Kansas City District restaurateurs said sales were up, but the average check amount had declined; in contrast, restaurant contacts in the Atlanta District gave mixed reports and some in the St. Louis District planned to decrease operations.

Reports from transportation services firms were mostly positive. Contacts in the Cleveland, Richmond, and Atlanta Districts reported an increase in freight transportation volume, notably for vehicles and construction materials. Dallas received mixed reports, however, citing weaker international demand for intermodal transportation; container volume flattened, while railroads reported moderate increases. Carriers in the Atlanta District reported increased air travel for business and leisure, while airlines in the Dallas District indicated traffic was steady. New York and Richmond cited a strengthening in freight trucking, and port activity rose in the Richmond and San Francisco Districts. Shippers in the Atlanta District anticipated temporary disruptions resulting from the disaster in Japan.

Manufacturing

All twelve Districts reported that manufacturing activity increased since their previous reports. Ten of the twelve Districts cited a further pickup in production, while Cleveland and Dallas observed steady to slightly improving activity. Dallas said overall demand in manufacturing rose slightly from low levels, noting gains in food, plastics, and construction-related products. Richmond and Chicago reported substantial increases in auto and auto parts manufacturing. Cleveland indicated that auto production overall dipped slightly, but that domestic automakers showed a substantial rise in production. Moreover, St. Louis mentioned that automobile parts and electrical equipment manufacturers reported plans to open new plants in their District. Boston and Kansas City reported that growth of high-tech goods was strong, but several contacts in the Dallas District said that high-tech shipments to Japanese factories declined. Boston and Richmond District respondents attributed a lack of new contracts from federal government agencies to the uncertainties surrounding the budget for fiscal year 2011. San Francisco reported that makers of commercial aircraft and related parts had modest growth in new orders, which they attributed in part to increased demand for aircraft with greater fuel efficiency. Philadelphia said that manufacturers of fabricated metal products and industrial machinery cited higher demand. Similarly, steel producers and metal service centers in the Cleveland District reported that shipping volume met or exceeded expectations, with shipments driven by energy-related, transportation, and heavy equipment.

Comments on the outlook were generally positive. Boston mentioned that manufacturers generally remained cautiously optimistic but voiced greater uncertainty about the outlook for the rest of the year, based on the disruption at Japanese facilities, the geopolitical climate worldwide, and ambiguity about U.S. government spending plans. Likewise, Chicago commented that contacts' optimism was tempered by elevated uncertainties surrounding recent global events. New York and Kansas City stated that contacts remained optimistic about the near-term outlook, and Philadelphia indicated that more than two-thirds of their manufacturers expected business conditions to improve in the next six months.

Real Estate and Construction

Real estate markets for single family homes for the most part either were little changed from low levels or continued to weaken across all Districts. Residential construction was described by Chicago as subdued and the spring building season is likely to be slower than previously anticipated. Market activity was still declining in the St. Louis and Minneapolis Districts, while activity in the New York, Cleveland, Kansas City, Dallas, and San Francisco Districts remained weak. Atlanta characterized the market as mixed, with Florida brokers providing most of the signs of improvement. Both Philadelphia and Atlanta noted that brokers expected the market to improve, and builders in the Cleveland District were more optimistic than in the past several months. A few Districts found pockets of improvement. For example, Philadelphia reported that agents were seeing a pickup in inquiries, showings, and traffic, although there was little increase in sales or construction. Boston noted higher activity in just the last few weeks, due in part to improved weather, and Richmond said that the market for lower-priced homes improved. The multifamily markets strengthened in several Districts, including Chicago, Dallas, Minneapolis, and San Francisco, both in terms of leasing and construction activity.

Commercial real estate activity remained weak across all Districts, although seven reported slight improvements since their last report. Market activity was still slow in the St. Louis and Philadelphia Districts and remained at low levels in the Boston, Atlanta, and San Francisco Districts. Markets in the San Francisco District were characterized as subdued, but leasing activity increased among technology firms. Most other Districts noted improvements, albeit slight, in activity. For example, Chicago and Kansas City cited moderate gains in construction, with Chicago highlighting gains in healthcare and automotive industries.

Improvements in the Cleveland District were also driven by healthcare projects and, to a lesser extent, by manufacturing and energy. Office and industrial leasing improved in the Richmond District, although retail was little changed.

Banking and Financial Services

Most Districts cited loan demand as either unchanged or slightly improved since the last report, although many of the Districts citing improvements noted weak demand in some market segments. Banks in the Chicago District noted that their pipeline was still not robust, although manufacturing, food processing, and healthcare experienced some growth. Cleveland reported that business lending was strongest in healthcare and in energy. Consumer loan demand showed some improvement in the Richmond and San Francisco Districts, but was little changed in the Chicago District. Overall loan demand was weak or little changed in the Philadelphia and Kansas City Districts, although Philadelphia noted some improvement in commercial and industrial loans and in some types of commercial real estate loans. However, New York described household demand (for both consumer loans and mortgages) as weakening in its District, and St. Louis noted declines across most segments of its market, including real estate, commercial and industrial, and personal loans.

Several Districts reported that credit standards were unchanged or slightly tighter and that competition for quality loans was intense. For example, Cleveland described credit standards as unchanged, while New York noted no change for consumer loans but tightening for other categories in its District. San Francisco noted that credit standards remained somewhat restrictive. Cleveland characterized loan quality as stable or slightly improved and delinquency rates as stable or trending down. However, New York mentioned an uptick in delinquency rates for commercial and industrial loans. Competition for quality loans was described as intense in the Chicago, Dallas, and San Francisco Districts, putting downward pressures on rates and fees.

Employment, Wages, and Prices

Most Districts reported that labor market conditions were generally stronger than in their last reports. New York, Richmond, Chicago, Minneapolis, Kansas City, and Dallas all noted increased employment activity, while Boston and Atlanta reported modest or gradual improvement. However, Philadelphia, Cleveland and San Francisco mentioned limited or delayed hiring, while labor market conditions were mixed in the St. Louis District. Boston, New York, Cleveland, Richmond, and Dallas cited noticeable improvements in the manufacturing

sector, and Boston and Kansas observed increased labor demand in the technology sector. New York, Cleveland, Richmond, Chicago, and Minneapolis received upbeat reports from staffing agencies. New York said that a major employment agency experienced a marked pickup in hiring activity in March, describing it as “the best month in years.” A staffing contact in the Cleveland District noted moderate growth in the number of new job openings, with vacancies concentrated in health care, energy and professional business services. A large staffing firm in the Chicago District reported solid growth in billable hours and a substantial increase in permanent placement and recruiting activity, while contacts in the Philadelphia District were inclined to delay additions to permanent or temporary staff. Employers in the Boston, Richmond, Chicago, and Kansas City Districts said that they were experiencing difficulty in recruiting highly specialized workers. Despite signs of improvement in most labor markets, St. Louis and Minneapolis reported examples of layoffs in the manufacturing sector of their regions.

Input prices rose in most Districts, particularly for cotton and other agricultural commodities, petroleum-based products, and industrial metals. In addition, shippers added fuel surcharges in several Districts. Boston, Cleveland and Atlanta cited increasing cost pressures, and some manufacturers in Boston were raising their selling price to pass costs along to customers. The ability to pass through increases, however, varied in both the Chicago and Atlanta Districts, with manufacturers generally being more successful than retail or construction firms. Contacts in the San Francisco District reported a limited ability to pass through higher input prices on anything other than food and gasoline. Kansas Cited stated that more manufacturers and retailers expected to raise prices in coming months.

Wage pressures were reported to be mostly contained, especially in the Philadelphia, Cleveland, Minneapolis, Dallas, and San Francisco Districts. Kansas City noted wages generally held steady, even with expanded hiring, and wage pressures were expected to be contained except for highly competitive or specialized positions. Wage pressures were described as modest in the Chicago District. However, Richmond reported slightly faster wage increases. Boston reported that nearly all of the manufacturing firms that they contacted planned to implement merit increases, and one contact planned a greater merit pool next year to compensate for previous low raises. Philadelphia noted some concern about rising nonwage employment costs, but wages for business firms in the District were mostly steady.

Agriculture and Natural Resources

Assessments of agricultural activity were mixed. Varying degrees of drought conditions persisted in the Atlanta, Kansas City and Dallas Districts, with Chicago indicating that some areas in their District did not have adequate subsoil moisture to endure dry spells. In the Kansas City District, agricultural growing conditions generally worsened in late February and March. In particular, winter wheat crop conditions deteriorated further as the drought in the southern Plains intensified. Dallas reported that drought conditions became more widespread in March, covering more than 90 percent of the District. However, Dallas noted that planting was underway despite concern about the lack of soil moisture for spring crops. Chicago also indicated that planting should proceed quickly in most of the District, as fields were in good condition with ground moisture sufficient for an excellent start to the crop year. Moreover, the Minneapolis District continued to enjoy good conditions in spite of wet weather and spring flooding. Most Districts reported that prices of fuel and feed continued to put downward pressure on margins, but prices for most agricultural commodities remained strong. Atlanta said that strong global demand contributed to elevated prices for some farm acreage, while Kansas City attributed higher farmland values to strong crop prices and a limited number of farms for sale.

Activity in the energy industry generally strengthened since the last report. Minneapolis, Kansas City, and Dallas reported increased drilling activity as demand firmed. In the Atlanta District, deep-water drilling permits were issued in late February for the first time since the Gulf oil spill last April, although the number of rigs operating in the Gulf of Mexico was still only about half the number prior to the spill. In the St. Louis and Kansas City Districts, coal production remained above year-ago levels, but was stable to moderately lower in the Cleveland District. Kansas City reported increased drilling activity, with exploration shifting away from natural gas toward crude oil, while Cleveland indicated that oil and gas output held steady. In the San Francisco District, extraction activity for natural gas expanded, while Minneapolis reported that late-March oil exploration activity increased since mid-February. Minneapolis also noted that iron ore mines in northern Minnesota were operating at full capacity, with expectations that 2011 production will be the highest in more than 10 years.

FIRST DISTRICT – BOSTON

Business activity in most sectors continued to expand during February and March in the First District, although retail reports are somewhat mixed and real estate markets report little improvement. Manufacturers cite ongoing revenue gains, some quite strong, although they also voice increased uncertainty about the outlook. Most consulting and advertising firms report strong year-over-year growth in the first quarter. Retailers and manufacturers continue to fill vacant positions but say they are doing only modest net hiring; consulting and advertising contacts intend to add to headcounts but are uncertain about skilled labor supply. Retailers and manufacturers cite commodity cost pressures and some are raising their selling prices to pass cost increases along to their customers.

Retail

First District retailers report mixed sales results for the period from January through early March, with comparable same-store sales ranging from modest decreases to mid-single-digit increases. Several respondents note the negative impact that inclement weather had on sales. Sales of apparel, accessories, groceries, and home furnishings are strong, as the consumer continues to seek value.

Inventory levels are mixed, but retailers say they are working to manage them carefully. Contacts note price increases for commodities, including cotton, dairy, grains, meat, produce, and nuts; several express concern about likely future cost increases. Shipping costs are said to be increasing, attributable to rising oil prices. Selling prices are mixed, with some contacts holding prices steady and others passing cost increases along to customers. Headcount is increasing in line with new store openings and select hiring opportunities. Capital spending is mixed. Outlooks range from cautious to cautiously optimistic.

Manufacturing and Related Services

Business is good overall at most responding manufacturers. One firm in the chemical business reports that sales are skyrocketing and its plants are running at full capacity. Technology-related manufacturers also report that sales growth continued to be strong in 2011Q1. Revenue growth varied across different business segments at more diversified manufacturers, with some sectors such as health care-related products and transportation seeing rapid sales growth and others experiencing more moderate increases. By comparison, the climate has softened a bit for a medical-device producer as well as an electronic-systems manufacturer

because of uncertainty about the federal budget; both firms have a portion of their sales tied to customers that rely on government contracts and/or grants and that seem unwilling to spend until the budget uncertainty is resolved. In addition, a manufacturer heavily tied to residential construction reports a further deterioration in its business as housing markets remain sluggish. Commodity prices continue to be a concern for a number of contacted manufacturing firms; they especially mention price increases for oil, precious metals, corn, and wheat. Some firms have already raised their selling prices in response to these input price increases and others plan to do so as the need arises. Companies who recently raised their prices comment that the increases were accepted easily by their customers. A food products manufacturer notes that there have been few objections because their customers are facing price increases from numerous suppliers. At some firms, these recent price increases do not fully compensate for their inability to raise prices in prior years. As a result, profits are flat at one firm despite its robust sales growth, and some other firms are looking for ways to cut costs further. A number of companies also note rising transportation costs for their goods due to rising diesel fuel prices. In addition, firms that use electronic components in their production are somewhat concerned about supply-chain disruptions in Japan. Inputs from Japan are expected to be in short supply soon (if they are not already) and the extent to which Japanese disruptions will impact firms' costs and/or production is uncertain. Respondent firms' sales exposure in Japan, however, is relatively limited and the revenue impact of the disaster is expected to be fairly small.

A number of technology-related manufacturers plan to hire additional workers in the coming months, in addition to the workers some of them have already hired this year. Much of this hiring will be domestic, but not necessarily in New England. Non-technology manufacturers note limited if any hiring plans. At least one firm plans to reduce its workforce slightly through restructuring in an effort to cut costs further, given continued uncertainty in the economic environment. Nearly all firms, however, mention plans to implement merit-based salary increases of 1.5 percent to 3 percent. In addition, one firm says it is planning for a greater merit pool next year to compensate for a few years of low salary increases.

Overall, manufacturing firms continue to be cautiously optimistic. They anticipate growth will continue at a steady pace, but relative to the last round they voiced somewhat greater uncertainty about the outlook for the rest of 2011. This change is due to the natural disaster in

Japan, the current geopolitical climate worldwide, and ambiguity about U.S. government spending going forward.

Selected Business Services

Consulting and advertising contacts in the First District mostly report significant growth in revenue during the first quarter of 2011. Consulting contacts in particular experienced large increases in demand, with year-over-year revenue increases ranging from 12 percent to 40 percent. They believe that clients are setting aside larger portions of their budgets for consulting or advertising services as the impact of the recession wanes. One exception is an advertising company whose revenue was down 25 percent from a very strong first quarter of 2010. Contacts have slightly increased the prices they charge for their services or they plan to do so over the course of the year.

Most respondents plan to augment employment by the end of the year to meet increased demand. The magnitude of the planned staff-size increases ranges from 3 percent to 12 percent. A number of contacts say they are experiencing recruiting difficulty because they are looking for highly specialized workers. One consulting firm also notes that the long work hours that consulting companies demand may no longer be acceptable to many qualified candidates. Wages are steady or up slightly, with one consulting firm reporting it has removed bonus cuts.

Our contacts are hopeful regarding their performance in the second quarter and the rest of 2011. They see the pipeline as very robust and expect significant year-over-year revenue growth of 10 percent to 20 percent, except for one advertising company that foresees flat demand. Some contacts note that unsuccessful recruiting efforts are a risk for these projections.

Commercial Real Estate

New England's commercial real estate market was roughly flat in recent weeks. In Boston, office leasing activity is stable, but not sufficient to generate significant positive absorption. Asking rents for office space are either flat or up marginally in greater Boston. However, contacts note that some existing tenants are successfully bargaining for rent reductions, bringing their rents down to current market rates from higher levels agreed upon at the market's peak. In Rhode Island, political uncertainty over budget deficits is said to have stalled business plans, resulting in light leasing activity, but pending deals for downtown Providence continue to engender optimism regarding office absorption in the coming months. In Portland, the commercial market was mostly quiet, with the exception of two significant deals

for call-center space. A Portland contact perceives continued downward pressure on office rents despite modest positive absorption. Outlooks across the region call for slow but positive office absorption for the remainder of 2011, conditional on ongoing employment growth in line with recent trends.

The multifamily sector remains strong in southern New England, with new construction under way in several areas of greater Boston and in the planning stages in two Rhode Island locations. Lenders continue to bid aggressively for apartment projects in greater Boston, as rental rate increases persist. While some Boston contacts worry about potential overbuilding in this sector, at least one is confident that a glut is unlikely in light of permitting hurdles and a scarcity of vacant land in desirable locations. Respondents mention no significant new construction activity aside from the multifamily sector.

Residential Real Estate

States throughout the region experienced year-over-year declines in single-family home sales in February with the exception of New Hampshire where sales increased modestly. The median price of homes also slipped slightly in the region except for Rhode Island where the median price rose. Meanwhile, sales and median prices of condominiums were lower than a year ago except in the Greater Boston area where the median condo price edged up. Contacts cite inclement weather as a factor contributing to February sales declines; sellers as well as buyers were discouraged by the weather, with home listings decreasing as well. Contacts also note that sales in the first half of 2010 were boosted by the homebuyer tax credit, making year-over-year comparisons difficult to interpret.

Contacts report a recent increase in activity attributable to more favorable weather as well as the typical seasonal rise at the onset of spring. Some respondents say the distressed share of property sales has declined, but others lacked sufficient figures to assess the distressed property share accurately. Although inventory levels declined in much of the region during February, the number of homes on the market remains relatively high across New England, particularly in New Hampshire. Notwithstanding their reports of recent increases in activity, contacts emphasize that activity levels in the region's housing markets remain far from what they would characterize as "normal" and they anticipate a lengthy recovery.

SECOND DISTRICT--NEW YORK

The Second District's economy has strengthened further since the last report. Firms in various industries report widespread increases in input prices and some increases in selling prices, while retail prices are generally reported to be stable. Labor market conditions improved moderately, with increased hiring reported in a number of industries. Retail sales were robust in February and March, with particular strength in auto sales. Consumer confidence has been mixed but generally steady since the last report. Tourism activity rebounded somewhat in March, after weakening modestly in February. Commercial real estate markets have been mixed. Housing markets have been generally stable, with relative strength at the lower end of the market. Finally, bankers report some weakening in household loan demand, and a moderate increase in delinquencies on commercial and industrial loans.

Consumer Spending

Retailers generally report strong results for February and March. One major retail chain notes that sales were ahead of plan in February and March, while another describes sales as on plan. Two major malls in western New York State also characterize sales as steady and strong, continuing to be buoyed by a flow of Canadian shoppers. A number of retail contacts note that, due to the later Easter this year, sales were modestly lower in March than a year earlier, but this effect is expected to be reversed in April. Unseasonably cool weather was not considered a major factor. Two major retail chains note that New York City under-performed the rest of the region in terms of sales growth last month. Inventories are generally reported to be at desired levels, and prices are reported to be stable, though one large retailer notes that it is testing out price increases on certain lines of merchandise.

Auto dealers in upstate New York—metropolitan Rochester and Buffalo—characterize sales of new vehicles as exceptionally strong since the last report. Sales of used cars were also relatively robust, and dealers report that business at service departments remains brisk. Retail credit conditions continued to improve.

Confidence surveys have given mixed results since the last report. Siena College's survey of New York State residents shows consumer confidence among NY State residents leveling off in March, after falling in February. The Conference Board reports that residents of the Middle Atlantic states (NY, NJ, Pa) became considerably less confident about the near-term outlook, in March, but that their assessment of current conditions improved for the 4th straight month.

Tourism activity in New York City picked up again in March, after slowing somewhat in February. Occupancy rates at Manhattan hotels moved up noticeably in March, and the number of occupied rooms was up modestly from a year earlier. Hotel revenues, which had slipped below comparable 2010 levels in February, rebounded in March. Attendance and revenues at Broadway theaters also slipped in February but rebounded above year-earlier levels in March.

Construction and Real Estate

Housing markets across the District have been generally stable since the last report, with the lower end of the market generally performing a bit better than the higher end, and re-sales performing better than new home sales. An authority on New Jersey's housing industry reports that market conditions remain weak: despite some uptick in resale transactions, the spring season, thus far, has been unusually slow. Brokers report that there have been more all-cash deals but also more distress sales. Sales and construction of new homes remain at exceptionally weak levels. A Buffalo-area real estate contact reports that selling prices have increased

modestly from a year ago, but that sales activity has been mixed—brisk at the lower end of the market, with some sellers receiving multiple offers, but sluggish at the middle and upper ends of the market.

Activity in New York City's co-op and condo market was generally stable in the first quarter, though the high end of the market has slowed a bit. While total activity was relatively flat versus a year ago, co-op sales rose sharply, while condo sales fell sharply. New condo units represent a smaller proportion of total apartment sales than they have in recent years. Overall, listing inventory is down roughly 5 percent from a year ago. Prices are steady in Manhattan, but continue to drift down in the other boroughs. Manhattan's apartment rental market has picked up somewhat since the last report. Overall, rents were reported to be little changed in March, but rents on smaller (studio) apartments continued to climb and were up more than 10 percent from a year ago. Vacancy rates declined, after edging up in January and February, and the inventory of available units is described as tight.

Office markets have been mixed but generally steady across the District in the first quarter of 2011. The office vacancy rate rose moderately in Manhattan and Long Island (where it reached a multi-year high), but was little changed in Northern NJ. However, asking rents in all these areas moved up, and landlords reportedly scaled back on concessions. In the Buffalo, Rochester and Syracuse areas, vacancy rates edged down, while asking rents were steady to up moderately. In Westchester and Fairfield counties and metropolitan Albany, however, office markets showed further signs of softening, as vacancy rates rose and asking rents continued to decline modestly.

Other Business Activity

Reports from business contacts suggest some broad-based improvement in the labor market. A major New York City employment agency reports a marked pickup in hiring activity in March and describes it as the best month in a number of years. The pickup has been most notable in financial and legal services but also in other areas, such as public relations and real estate. On the supply side, this contact notes that there are fewer candidates looking, and that more employed people are making moves. More generally, firms in both manufacturing and other sectors report a further pickup in both hiring activity and general business conditions in early March, and contacts remain optimistic about the near term outlook. A trucking-industry contact reports that shipping activity has picked up steadily in recent months, but that firms face rising costs from both rising energy prices and more stringent federal regulations. More broadly, firms in various industries report increasingly widespread increases in input prices, and some increase in selling prices.

Financial Developments

Bankers report decreased demand for consumer loans and residential mortgages, increased demand for commercial mortgages and no change in demand for commercial and industrial loans. The decrease was most prevalent for residential mortgages. Bankers indicate steady demand for refinancing. Respondents report no change in credit standards for consumer loans and a tightening of credit standards for the other loan categories. No banker reported an easing of credit standards in any category. Bankers report a decrease in spreads of loan rates over costs of funds for residential mortgages but no change in spreads in the other loan categories. Respondents also note a decrease in the average deposit rate. Bankers report an uptick in delinquency rates for commercial and industrial loans but no change in delinquency rates for the other loan categories.

THIRD DISTRICT – PHILADELPHIA

Business activity in the Third District has improved overall since the last Beige Book. Manufacturers reported increases in shipments and new orders in March. Retailers achieved slight year-over-year increases in sales in March. Motor vehicle dealers also reported year-over-year sales increases in March. Third District banks reported little overall change in loan volume outstanding since the last Beige Book, although a few reported increased lending on home equity credit lines and growth in small business lending. Residential real estate agents reported some increase in activity since the last Beige Book as measured by inquiries, showings, and traffic, but little pickup in sales or construction. Contacts in the commercial real estate sector said that leasing and construction activity have remained slow since the last Beige Book. Service-sector firms reported some increases in activity. Business contacts reported further price increases for inputs as they did in the previous Beige Book. Output price increases have also been reported in several sectors, but by fewer contacts than for factor prices.

The outlook among Third District business contacts is positive and has strengthened slightly. Manufacturers forecast a broad rise in shipments and orders during the next six months. Retailers expect sales to increase modestly on a year-over-year basis. Bankers expect only slight growth in lending over the next two quarters. Contacts in residential real estate have mixed views, although some expect a pickup in sales of existing homes. Contacts in commercial real estate expect market conditions to improve slowly during the year. Service-sector companies expect continued slow growth through the first half of 2011.

Manufacturing

More than half of Third District manufacturers reported increases in shipments and new orders in March — a stronger response than in February. Producers across a broad spectrum of 13 manufacturing sectors reported increased demand. The strongest reports came out of the fabricated metal products and industrial machinery and equipment sectors. Declines in orders were predominant only among producers of apparel and rubber products. While several manufacturers cited existing customers as the source of increased orders, other sources included new product offerings and expanding international opportunities.

Over two-thirds of Third District manufacturers expect business conditions to improve during the next six months. Among the firms surveyed in March, over 60 percent expect

increases in new orders and shipments, and less than 5 percent expect decreases. One supplier of construction industry materials reported receiving contracts extending further out into the fourth quarter. Plans to increase capital spending became more widespread with over one-third of area manufacturers projecting an increase over the next six months.

Retail

Third District retailers generally reported slight year-over-year increases in sales in March. One merchant said, "Things are getting a little better, but there is no move to stronger growth." Retailers indicated that sales of furniture and home goods have risen recently, but sales of spring apparel have been slow to pick up, which retailers attributed to unseasonably cold weather and the late Easter date this year. Some retailers said they have experienced shortages of a few goods produced by Japanese companies, mainly electronic products, but as of late March there did not appear to be a widespread interruption of imports of consumer goods from the Far East. Store executives surveyed for this report expect the current modest rate of sales growth to continue through the spring.

Third District auto dealers generally reported that sales were above the year-ago level in March and were continuing to move up. Some dealers of various brands noted the beginning of supply interruptions due to halts of vehicle and parts production in Japan resulting from the earthquake and subsequent problems there. These dealers said the supply problem had not yet become serious, but they did not know how extensive it might become or how long it might last. Dealers reported that demand for large vehicles has not declined yet despite the recent increase in the price of gasoline. Dealers said they see evidence of "pent-up demand" and they expect sales to remain strong as long as economic conditions are improving and the price of gasoline does not rise much higher.

Finance

Total outstanding loan volume at most of the Third District banks contacted for this report has shown little change in recent weeks. Some banks in the region reported recent increases in lending extended on home equity credit lines, but other forms of consumer credit have been level or moved down. Some banks reported increases in commercial and industrial loans and some types of commercial real estate loans. One banker said, "We're making more small business loans, and commercial real estate lending is picking up except for retail properties." The outlook among Third District bankers interviewed for this report is that total

loan volume will expand slowly this year, as overall economic activity advances, with gains mostly in commercial and industrial and consumer lending, but lending for residential or commercial construction is not expected to increase.

Real Estate and Construction

Residential real estate activity has shown some signs of picking up in most parts of the Third District. Real estate agents reported a recent increase in inquiries from prospective buyers of existing homes. A common comment from agents was that “showings are up.” Several agents noted that the inventory of existing homes for sale is below the level of a year ago. Agents expect sales to pick up by the usual seasonal amount this spring, and some said they thought a stronger than usual gain might be attained. However, agents generally expect sales prices to be level with or slightly below prices recorded a year ago. Sales of new homes do not appear to have increased notably in the region, according to local builders. Some contractors reported a rise in remodeling and renovation work, but they also noted that rainy weather has caused delays in this activity in recent weeks.

There has been little change in commercial and industrial markets in the Third District since the previous Beige Book, according to area nonresidential developers, builders, and real estate firms. While rental concessions were widely reported “even with renewals,” one contact stated that “rents are bottoming out and building values are starting to improve for top-quality buildings.” The overall market is expected to tighten slowly over the year. One contact indicated that the market for industrial space “may see positive net absorption by the end of the year, but three quarters of positive absorption will be needed to put pressure on rental rates.” Another contact identified “shadow inventory” persisting in the office market and suggested that “a 7 percent unemployment rate is needed before the office market sees positive net absorption.” With anticipated recoveries extending from six months to two years or more for various segments of nonresidential real estate, construction activity remains weak with little growth expected through 2011. Some building activity may increase for industrial space in the latter half of the year.

Services

Service-sector firms generally reported increases in activity since the previous Beige Book; however, for most of those contacted in March, the monthly and year-over-year gains have been modest. Firms providing services to businesses as well as those providing services to

consumers indicated that activity has been advancing slightly as a result of both increases in customers and per-customer usage. Most of the service-sector firms contacted for this report expect growth to continue at around its recent pace; few expect growth to accelerate in the near future. One contact expressed the opinion of most in saying, “The cycle has turned up, but our customers are being very cautious about increases in spending.”

Prices and Wages

Reports from manufacturers since the previous Beige Book continue to indicate rising factor prices, especially for energy inputs. Far fewer manufacturers report raising output prices, while a few indicate resistance to hikes from their customers, if not expectations of discounts. Retailers generally indicated that selling prices have been steady, although some reported that they have raised apparel prices in response to higher wholesale costs. Auto dealers reported continuing high prices for used cars and recent increases in prices for new cars. Although the predominant view among Third District firms is that overall inflation will move higher, slightly fewer firms expressed that view compared to reports from the last Beige Book. Nevertheless, several firms in the region said they have implemented hedges or signed forward contracts for motor fuels.

Business firms in the region reported mostly steady wages since the last Beige Book, although some continued to express concern about rising nonwage employment costs. Employment agencies reported growth in demand for workers, although they indicated that firms were continuing to delay additions to permanent or temporary staff until the need for more workers becomes pressing.

FOURTH DISTRICT – CLEVELAND

On balance, economic activity in the Fourth District continued to expand at a modest pace. Manufacturers reported some improvement in new orders and production. Information received from retailers and auto dealers was generally positive. Freight transport volume increased, while energy producers noted little change in output. New home construction remains sluggish, whereas nonresidential building showed some pickup in activity. The demand for business and consumer credit rose slightly.

Rising payrolls were limited to the manufacturing and retail sectors. Staffing-firm representatives noted moderate growth in the number of new job openings, with vacancies concentrated in health care, professional business services, and energy. Wage pressures remain contained. Reports of elevated prices for commodities, steel, fuel, and other raw materials were widespread. As a result, manufacturers, retailers, and freight carriers felt mounting pressure to pass through some of their rising input costs to their customers.

Manufacturing. Reports from District factories indicate that new orders and production were mainly steady or up slightly during the past six weeks. Declines were attributed to seasonal factors. Compared to a year ago, production was generally higher, with some of our contacts experiencing low double-digit increases. Manufacturers have a favorable outlook, and they expect at least modest growth during 2011. Steel producers and service centers reported that shipping volume met or exceeded expectations, with shipments being driven by energy-related, transportation, and heavy equipment industries. They anticipate volume remaining at current levels through at least the first half of this year. District auto production dipped slightly during February on a month-over-month basis. Compared to a year ago, domestic auto makers showed a substantial rise in production, while foreign nameplates posted a modest decline.

A majority of our contacts indicated that capacity utilization rates continue to trend higher but are somewhat below normal levels. Inventories are balanced with incoming orders. Many of the manufacturers we spoke with said that capital outlays will be higher in the upcoming months relative to year-ago levels. Some noted that projects delayed in 2010 will be started this year. Others said that business conditions warranted raising capital budgets for 2011. Prices for metal and agricultural commodities, steel, and petroleum-based products remain elevated. Many of our contacts reported passing rising input costs through to their customers. A few manufacturers commented that they expect steel prices to begin falling back during the second half of this year. The pace of hiring among manufacturers has picked up since our last report; however, several contacts said that they are using temporary workers instead of creating new positions. Wage pressures are generally contained, with some companies planning to reinstate merit increases.

Real Estate. Although new home construction remained overall at a low level, a few general contractors noted a pickup in traffic and sales. Purchases were mainly in the move-up

buyer categories. Little change in sales was noted on a year-over-year basis. Home builders expressed somewhat more of an optimistic outlook than during the past several months, which they attributed to seasonal factors and slightly better-than-expected activity during February. List prices and discounting of new homes have held steady since our last report, while some upward pressure on the cost of building materials was reported. Little movement was seen in land positions or spec inventories. A few builders said they want to construct more spec houses, but they are unable to obtain financing. We heard many reports of subcontractors struggling to stay in business, while general contractors continue to work with lean crews. No hiring is expected in the near term.

Activity in nonresidential construction is being driven primarily by healthcare projects, and to a lesser degree, by manufacturing and energy. Information on current business conditions varied widely, though a number of high-end projects (greater than \$100 million) are now entering the construction phase, after several years of planning. Most of our contacts expect that activity will slowly improve as the year progresses. Two builders noted that banks must loosen credit restrictions in order for projects to move into the construction phase. Another builder said that some of his manufacturing clients have the cash, but there is no sense of urgency on their part to begin construction. We heard widespread reports of increased prices for building materials, particularly steel and petroleum-based components. Contractors are absorbing these rising costs in their margins. Other than seasonal employment, general contractors held payrolls steady, and they do not expect any new permanent hiring in the upcoming months.

Consumer Spending. Reports from retailers indicate that sales for the period from mid-February through mid-March were generally on or ahead of plan, and were mostly higher relative to year-ago levels. Sales of warm-weather apparel and recreational products have picked up. A few of our contacts reported that the low- to mid-market segments still face considerable stress. For the second quarter of 2011, retailers expect transactions to rise on a year-over-year basis, with several anticipating low to mid-single digit gains. We continued to hear about increasing prices from vendors, which were primarily attributed to a rise in the cost of agricultural commodities. Accordingly, some retailers have raised their prices, especially for food products. Profit margins were generally steady or showed a slight improvement. Capital spending is mainly for store remodeling, new store openings, and e-business expansion, with a corresponding increase in payrolls. No change in employment is expected at existing stores.

Auto dealers reported that new-vehicle sales improved between mid-February and mid-March when compared to the prior 30-day period, while on a year-over-year basis, vehicle purchases rose substantially for most of our contacts. Several noted that they are beginning to see a pickup in sales of more fuel-efficient cars. Dealers expressed concern about a potential slowdown in the pace of the recovery. As a result, they are more cautious in their outlook for vehicle purchases during the spring and summer months. A majority of our contacts said that

new- and used-vehicle inventories are too lean. Used-vehicle prices are trending up. Reports about lenders loosening credit requirements were fairly widespread, with credit prices remaining very competitive. Dealers are waiting for more details from automakers before committing to major capital investments in their facilities. However, several of our contacts said that they are currently undertaking some minor upgrades. Most auto dealers are beginning to hire on a selective basis.

Banking. Bankers reported that demand for business loans grew at a modest pace since our last survey. Although demand was characterized as broad-based, some bankers commented that applications were strongest from health-care providers and energy companies. On the consumer side, a majority of our contacts indicated that credit demand has picked up slightly, primarily for vehicle purchases (direct and indirect) and home equity lines of credit. Interest rates for business and consumer credit were stable, but competitive. Demand in the residential mortgage market is mainly for refinancings, although applications have slowed due to rising interest rates. Core deposits continue to grow, but at a lower rate, with almost all growth occurring in nonmaturing products. Credit standards were unchanged. The credit quality of businesses and consumer applicants was characterized as stable or improving, while delinquency rates were steady or trending down across most portfolios. Staffing levels have shown little change during the past few weeks, and only selective hiring is expected during 2011.

Energy. Reports indicate that oil and gas output from conventional wells was fairly steady during the past six weeks, with little change expected in the near term. Spot prices for natural gas were steady to trending down, while wellhead prices paid to independent oil producers showed a modest increase. Coal production was stable to moderately lower since our last report, with little change anticipated in the near term. Coal prices held steady. We heard widespread reports of increased costs for diesel fuel and other equipment and materials used in coal production. Energy payrolls are expected to remain at current levels.

Transportation. Freight transport executives reported that shipping volume rose from early February through mid-March, after a greater-than-expected seasonal decline during January. Two of our contacts noted that they are seeing a slight pickup in shipments of residential construction materials. Looking ahead, carriers expect that markets will continue to recover. The price for diesel fuel remains elevated, with most of the increase being passed through to customers via surcharges. We also heard about rising prices for tires and packaging materials. One executive said that he plans to increase his shipping prices as customer contracts come up for renewal. Capital outlays are expected to rise modestly during 2011 to replace aging equipment. Little capacity expansion is expected. Hiring has been for replacement and seasonal work. Slight wage pressures are emerging due to a tightening of the driver pool.

FIFTH DISTRICT–RICHMOND

Overview. Fifth District economic activity generally improved since our last report. Manufacturers' new orders rose and port activity picked up, with raw commodities helping to drive exports. Bank officials reported some increased volume in commercial loan demand, as business clients restarted projects that had been put on hold. Revenue growth among non-retail services firms was more widespread in recent weeks, with notable increases in demand for freight trucking and tourism-related services. Residential real estate markets edged up, especially for homes in the lower price range. Commercial leasing improved somewhat. District labor markets picked up, particularly for temporary workers in automotive and other manufacturing sectors. On the other hand, commercial construction remained weak and retail contacts reported soft sales. Input price growth continued to pick up in both manufacturing and services sectors and we heard concerns about the availability of raw materials.

Manufacturing. Manufacturing activity continued to expand at a solid pace in March. An auto-parts supplier said that orders at his plant had increased beyond available capacity and he indicated that lead times had increased due to the scarcity of materials. He mentioned that levels of inventories were much lower than desired, and in some cases were nonexistent, causing backlogs of orders for both aftermarket and service parts. Similarly, a packaging manufacturer told us that vendor delay in selected raw materials had affected his company, and he described transportation costs as a growing worry. A manufacturer of dental equipment reported an increase in business throughout his company; he noted that the gains included existing and new accounts. In contrast, several manufacturers who supply products to federal government agencies attributed the lack of new contracts to the uncertainties surrounding the budget for fiscal year 2011, but they expected that business would return to normal once the federal spending issues are resolved. Several textile contacts reported that uncertainty in their raw material markets, exacerbated by the turmoil in the Middle East, had caused prices in petroleum-based products to escalate. More broadly, raw materials prices continued to move higher, according to our latest survey.

Port-related activity in the District advanced at a moderate pace, although several contacts noted that the pace of expansion was slower than a year ago. Exports of raw commodities remained robust, with exports outpacing imports at most ports. One official reported strong export demand for break freight (e.g., autos and construction equipment), as well

as soy beans, scrap metal, paper, and refrigerated commodities. Another port contact stated that the number of freighters waiting to enter to port to load—mostly coal and grains—was the highest he had seen in years. High freight capacity kept shipping rates down, according to one shipper, but fuel costs were becoming a serious concern, even when those costs could be passed along. Both truck and rail have benefited from increased intermodal freight coming through the ports, according most contacts, but the fuel-cost advantage of rail has given that mode an edge over trucking.

Retail. District retail sales remained anemic in recent weeks. A store manager at a discount chain department store in central North Carolina noted, “Sales petered out after early tax refunds were spent,” while the store manager at another discount chain store in Virginia Beach said sales were “slow but steady.” Suppliers’ prices rose rapidly for cotton and petroleum-based fabrics. At a Maryland mall, a department store manager told us that rising cotton prices were “a big deal,” preventing acquisition of inventory such as clothing, sheets, and towels. An analyst for a major hardware store chain stated that sales were “a little better,” with shoppers spending more but not on major home improvements. Big-ticket sales weakened, according to surveyed contacts, primarily in wholesale construction materials and furniture. Vehicle sales were generally sluggish or unchanged; a dealer in the Tidewater area of Virginia reported “sales have been stagnant.” Another dealer reported that he was facing restrictions on ordering certain car colors, because those paints come from Japan; he also noted availability problems with car components originating in Japan. Retail prices rose at a slightly quicker pace in recent weeks; a large grocer indicated that his wholesale price increases were being passed through to consumers.

Services. Revenues grew more rapidly at services-providing establishments since our last report. CPAs and tax-preparation services reported strong seasonal demand. Internet service businesses, as well as travel-related services providers, also noted higher revenues. A contact at a building maintenance firm cited a recent uptick in modernization spending, especially among large hotels, causing increased backlogs at his company. Healthcare contacts indicated that demand for their services was generally unchanged in recent weeks, as did business-to-business services such as management consultants. An exception was freight trucking; contacts with a nationwide presence stated that business was strengthening and that they were doing some hiring. The pace of price increases in the sector edged up, according to survey responses.

Finance. Banking activity picked up across the District. Most bank officials whom we contacted noted a marked increase in interest from business clients, often to restart projects that had been delayed over the past two years. Several bankers also reported that their lending had grown from weak levels at the end of last year. A Virginia banker stated that consumer demand, while still quite soft, had improved, while a Richmond banker in a relatively affluent neighborhood cited a spike in equity line usage (often to be used for pre-sale home renovations). Most commercial bankers reported that small business lending had strengthened somewhat, with much of the funds going to equipment upgrades and plant expansions. A bank official in West Virginia reported that auto dealer inventory financing increased, but overall the bank's loan pipeline was slack and he was unenthusiastic about loan demand in general. Reports on mortgage lending activity were mixed.

Real Estate. Real estate activity edged up since our last report. Several Realtors indicated that sales were picking up gradually and that markets were more active than a year ago when tax credit programs were still in place. Most contacts indicated that sales in the low-price range fared much better than sales in the upper ranges. In contrast, an agent in the D.C. area stated that sales in the \$700 thousand to \$900 thousand price range increased over 80 percent, and sales in the one-million-plus price range were up over 100 percent. While most Realtors indicated that they had not seen any change in the proportion of distressed sales, a contact in Greensboro, North Carolina noticed an increase in foreclosures and an agent in Fredericksburg mentioned that short sales were still about 50 percent of that market. Realtors throughout the District noted an increase in foot traffic, but sale price movements varied. Real estate agents in the D.C. and Greenville, South Carolina areas stated that prices held steady, while a contact in Greensboro said prices were soft. In contrast, an agent in Fredericksburg, Virginia reported that sales prices rose about 10 percent over last year, and an agent in the D.C. area reported upward price momentum due to lower inventory. He noted that properties in top condition and priced at market were selling quickly and that recent sales were generating four to five offers at full price and above.

Commercial real estate activity improved somewhat since our last assessment. A Richmond Realtor reported a substantial increase in office leasing (both new and renewals), and the industrial sector experienced moderate improvements in absorption, while leasing of retail space held steady. In South Carolina, a contact noted that a vacant plant in a distressed industrial

area had been sold to a local import business. Additionally, an economic developer for the area stated that commercial permit activity was increasing both in terms of volume and amounts. However, foreclosed properties were still an issue in Maryland, according to a contact there, while another source remarked that available financing for projects continued to be a problem in the Carolinas. Construction activity was little changed over the last several months, according to a survey of construction contractors in the District, although the few reports of at least some gain in activity slightly outnumbered reports of declines. Most contractors reported cost increases in a wide variety of commodities, but, compared to a similar survey at the end of last year, a greater number were able to pass through the increases.

Labor Markets. Labor markets generally strengthened across most sectors in the Fifth District, with the exception of construction and retail. Several employment agencies reported somewhat stronger demand for temporary help in recent weeks, particularly in automotive and other manufacturing sectors. The branch manager of a temp agency in Raleigh and an agent in Hickory, North Carolina reported an increase in demand for skilled workers for the manufacturing and automotive industries. In Charlotte, North Carolina, an employment agent indicated that hiring was on the rebound and that his firm would soon add internal recruiters and account managers. Most recruiters expected rising demand for employees over the next six months. However, many contacts mentioned that skill levels of applicants often fell short, despite recent government actions to improve education and training for displaced workers. According to our latest survey, wages in the retail sector increased on average, although gains were somewhat less widespread than in our last report; the pace of wage increases picked up at services firms.

Tourism. District hotels, including resorts, reported an uptick in bookings for April, as well as strong advance bookings for the summer vacation season. The manager of a resort hotel in the North Carolina Piedmont region expected a good summer season, and he indicated April bookings were up slightly year-over-year. Our contact at a resort in western Virginia reported an increase in dollar volume, year-over-year. He said, “‘Staycations’ are here for the long-haul,” with many of his advance-booked leisure guests coming from within a day’s drive. A contact on the North Carolina Outer Banks reported that rentals were up in most categories for the summer ahead, and good spring weather had boosted April cottage rentals. She stated that people seemed to be feeling a little better about the economy and were focusing on spending time with family. A

Washington, DC contact reported that early attendance at this year's Cherry Blossom Festival was above average and that cooler temperatures meant that blooms would last longer, giving visitors more opportunity to enjoy the cherry trees in bloom.

SIXTH DISTRICT – ATLANTA

Summary. Sixth District business contacts described economic activity as advancing modestly from mid-February through March. Retailers cited that consumer spending improved while auto dealers reported strong sales growth. Tourism activity remained positive as occupancy rates and air travel mostly increased. Residential brokers and builders indicated that sales growth of new and existing homes were mixed, but generally remained weak, while commercial contractors mentioned improving conditions as development increased slightly. District manufacturers experienced increasing levels of new orders and production. Transportation firms noted modest advances in shipments and tonnage. Banking contacts reported soft but improving loan demand. Labor markets continued to recover at a gradual pace. Cost pressures grew for most District firms, but the ability to pass through price increases continued to vary by industry.

Consumer Spending and Tourism. Most District merchants reported that retail activity improved in February and March following a lackluster January. Retailers reported that they do not plan to make any changes to the tight inventory management practices currently in place. The outlook among District retail contacts remains optimistic; however, rising gasoline prices and its potential impact on consumer confidence and spending was a concern. Automobile dealers described robust sales growth and a strong demand outlook. A few noted that an improvement in consumers' access to credit contributed to the increase in sales.

Hotel occupancy rates rose on a year-over-year basis in several of the District's major markets, while convention bookings were flat compared with last year. Restaurant contact reports were mixed and many cited concerns over the rising costs of food products. Airline carriers indicated an increase in both business and leisure travel. Overall, the outlook for tourism remained upbeat.

Real Estate and Construction. Reports from District homebuilders on new home sales in February and March were mixed. Florida and Georgia builders stated that sales were below year-ago levels, while elsewhere in the region sales were similar to year earlier levels. Homebuilders noted that construction activity remained below last year's level and inventories eased further. Several residential construction contacts remarked that financing remained very difficult to secure.

District residential brokers indicated that existing home sales growth softened somewhat in February and March, and were generally similar to year-ago levels. However, Florida brokers were more upbeat with the majority noting sales gains on a year-over-year basis, which were largely driven by sales of distressed homes. Brokers elsewhere in the region remarked that sales remained below year-earlier levels and were slightly weaker than in our last report. District brokers stated that home inventories eased on a year-over-year basis and that the number and speed of foreclosures coming into the market had slowed. Several contacts mentioned greater demand for rental property. The outlook for sales growth continued to improve, largely driven by positive reports from Florida brokers.

Nonresidential construction activity remained at low levels during February and March. However, the majority of contractors indicated that the pace of commercial development was flat to slightly up compared with a year earlier, which is an improvement from our previous report. Backlogs declined on a year-over-year basis. Contacts noted that material prices were on the rise while competition for available projects remained aggressive. Most contractors anticipate activity to remain flat to slightly below last year's level.

District commercial brokers reported that markets continued to stabilize. Vacancy rates remained relatively unchanged from the end of last year and declining rents were noticed across much of the District. Commercial brokers anticipate a slow recovery.

Manufacturing and Transportation. District manufacturers noted strong growth in new orders and production. Respondents also signaled stable or higher levels of employment. The majority of manufacturing contacts continued to indicate they will be increasing production in the short-term.

Transportation contacts noted that shipments and tonnage continued to experience modest increases since the last report. Most firms also cited that they have not yet experienced major disruptions in the supply chain from the Japan disaster, but several are anticipating some temporary interruptions – most notably in the auto and IT sectors.

Banking and Finance. District bankers reported that demand for most types of loans remained low and lending standards remained tight in February and March. Many cited that credit was available but finding qualified borrowers continued to be difficult. Some community bankers noted encouraging reports of loan demand surfacing in the last few months, especially among small business owners.

Employment and Prices. Labor markets continued to recover gradually across the region. Business contacts indicated that their hiring plans for the year are to leave employment levels unchanged or to increase them slightly. Many firms noted that they have no problem finding workers with the necessary skills. However, there were isolated but increasing reports of difficulty finding qualified candidates to fill specialized, higher skilled positions.

Firms' expectations for unit cost increases over the next year continued to rise, with material costs and employee salaries and benefits cited as sources of potential cost pressures. Reports of price pass-through were mixed across the District and varied based on industry and the presence of competitive pressures. For example, many retailers noted that strong competition was limiting their ability to raise prices. Homebuilders said that they have been unable to pass through material cost increases because of persistent downward pressure on home prices. However, many manufacturers were more successful in increasing prices to their customers.

Natural Resources and Agriculture. Regional crude oil inventories continued to rise in February and March as the industry builds stocks in anticipation of the summer driving season. Though the number of rigs operating in the Gulf of Mexico is still only about half the pre-oil spill level, deep-water drilling permits were issued in late February for the first time since the Gulf oil spill last April. Industry contacts noted that the recent international events, including Japan's nuclear crisis and the unrest in the Middle East, have added additional uncertainty to their outlooks for investment and hiring.

While rainfall totals in some areas have improved since the previous report, much of the District experienced varying levels of drought. Contacts noted that prices of fuel and feed continued to put pressure on margins, but prices for many of the District's agriculture products remained strong, particularly cotton, soybeans, and beef. Reports indicated that continued strong global demand has contributed to elevated prices for some farm acreage in the District.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District continued to increase in February and March. However, contacts' optimism was tempered by elevated uncertainty surrounding recent global events. Consumer and business spending increased. Manufacturing production expanded, though construction was again subdued. Credit conditions continued to improve. There was some further pass-through of higher commodity prices to downstream prices. Expectations were for more corn and fewer soybean acres to be planted in the District this spring relative to last year.

Consumer spending. Consumer spending increased from the previous reporting period. Consumers continued to be drawn toward promotional items, now in part because they are dealing with the impact of higher food and energy prices on household budgets. The expiration of manufacturers' incentives contributed to a slight decline in auto sales in March. Auto dealers reported inventories were relatively low given the recent strength of sales. Contacts noted that potential production disruptions stemming from the events in Japan and the effects of rising gas prices on demand add a good deal of uncertainty to the outlook for the auto sector. Some dealers have already seen a shift in sales from new trucks to more fuel efficient vehicles.

Business spending. Business spending continued to increase in February and March. Inventories were little changed, overall, although a few contacts indicated increasing their inventories of raw materials in anticipation of further price increases in the coming months. Capital expenditures continued as planned with several manufacturers noting equipment purchases and other efficiency improving investments. Merger and acquisitions activity picked up some. Hiring increased with contacts adding both temporary and permanent employees. Job postings also increased, and manufacturers reiterated the difficulty in finding appropriately skilled workers. A large staffing firm reported solid growth in billable hours and a substantial increase in permanent placement and recruiting activity. Furthermore, a recruiting firm noted that small business' hiring plans are beginning to show signs of improving.

Construction/real estate. Construction activity was again subdued in February and March. Single-family homebuilders indicated that the spring building season was likely to be slower than previously anticipated. They also reported a drop in the contract conversion rate. Buyers appear to be waiting for home prices to stabilize from their recent declines and the

availability of financing remains a concern. In the multifamily sector, several contacts reported developing strength in the rental market and a corresponding pick-up in conversions of condominiums into apartments. Nonresidential construction slightly improved. Contacts reported greater activity in both the institutional and industrial sectors, including from the healthcare and automotive industries. Commercial real estate conditions were marginally better with commercial rents flattening out and small improvements in vacancy rates.

Manufacturing. Manufacturing production continued to expand in February and March. Activity in the steel, auto, and heavy equipment sectors remained strong. Several contacts reported significant current order backlogs and firming second-quarter order books. Capacity utilization in these industries has increased, but ample idle capacity remains available. For example, a contact in the steel industry noted that active furnaces are operating at high rates of utilization while idled furnaces are expected to be brought back on-line only slowly this year given the high costs of reactivation and uncertainty in the outlook. Lead times continued to lengthen as supply chains were stretched further for some parts. In addition, concerns, and a great deal of uncertainty, were expressed about the potential impact of the Japanese disaster. Contacts expected that supply chain disruptions would take place, although it was too early to tell their full extent. Auto suppliers reported that shortages are most likely to occur first in parts such as electronics, as well as for parts that were already in short supply like tires. Some domestic suppliers have already seen increases in demand for their products as a result. Automakers reported that dealers' vehicle inventories were lean enough to make them consider adding shifts at existing plants; but if parts shortages arise, production schedules may be pared back now and made up as necessary later in the year.

Banking/finance. Credit conditions continued to improve in February and March. Banking contacts indicated that the business loan pipeline was still not robust, but that there were some areas of growth in manufacturing, food processing, and healthcare. Competition continued to be fierce for high-quality commercial and industrial loans (both large and small) leading to more aggressive terms and pricing. In addition, bank and non-bank investment in commercial real estate assets was also noted to be increasing. Consumer lending was little changed from the previous reporting period. Mortgage applications decreased and those made were primarily for purchase, as refinancing slowed with a rise in mortgage rates. Several contacts raised concerns

about the impact that uncertainty surrounding the future of Fannie Mae and Freddie Mac and the regulatory environment were having on mortgage credit availability.

Prices/costs. Cost pressures rose in February and March. Wage pressures remained moderate, but raw materials prices increased. The most notable increases were for steel and other industrial metals, but the prices of plastics, paints, resins and cotton also rose. Fuel and transportation surcharges were also noted to be rising. Pass-through to downstream prices was moderate, however. Retailers indicated that they were trying to limit raising prices, though pass-through was noted to be increasing, particularly for food and energy-related items. In contrast, several manufacturing contacts reported an increase in pricing power, with less pushback from customers in accepting higher prices. Commercial builders have been able to pass along minimal price increases to offset some of their higher raw material costs, although residential builders have not been able to do so.

Agriculture. Contacts predicted normal timing for the start of planting this year, and that fields were in good enough shape so that planting should proceed quickly. Ground moisture across the District is sufficient for a good start to the crop year, although some areas do not have adequate subsoil moisture to weather dry spells. More corn and fewer soybean acres were expected to be planted this year. Corn, soybean, and wheat prices were volatile, but on net edged lower during the reporting period. With stocks lower than a year ago, contacts saw the potential for upward pressure on corn and soybean prices in coming months. Moreover, feed mills have been actively seeking alternatives to blend into livestock rations. Milk prices continued to rise. Hog and cattle prices moved higher, with premiums being offered to attract the delivery of more animals for slaughter.

EIGHTH DISTRICT - ST. LOUIS**Summary**

Economic activity in the Eighth District has continued to expand at a modest pace since our previous report. Manufacturing activity has increased since the previous report. Activity in the services sector also has increased, but at a slower pace than in the previous report. Retail and auto sales have risen in recent weeks. Residential real estate activity has continued to decline, while commercial construction activity has remained slow. Lending at a sample of small and mid-sized District banks declined in the three-month period from mid-December to mid-March.

Manufacturing and Other Business Activity

Manufacturing activity has increased since our previous report. Several manufacturers reported plans to open plants and expand operations in the near future, while a smaller number of contacts reported plans to close plants or reduce operations. Firms in the silicone products, rubber products, and military vehicle manufacturing industries reported plans to expand existing operations and hire new workers. Additionally, firms in the electrical equipment and automobile parts manufacturing industries reported plans to open new plants in the District. In contrast, firms in the food, surgical instrument, packaging, and weapons manufacturing industries announced plans to decrease operations and lay off employees.

Activity in the District's services sector has increased slightly since our previous report. Contacts in the casino, electronic parts wholesale, transportation equipment wholesale, and health care industries announced plans to expand operations and hire new workers. In contrast, contacts in the education, restaurant, and fire protection services industries reported plans to decrease operations in the District and lay off employees. General retail contacts reported that sales have improved and customer traffic has increased in recent weeks. Auto dealers report that

sales of both new and used vehicles have increased, but the supply of quality used vehicles continues to be tight.

Real Estate and Construction

Home sales continued to decline throughout most of the Eighth District. Compared with the same period in 2010, February 2011 year-to-date home sales were down 6 percent in Louisville, 8 percent in St. Louis and Memphis, and 14 percent in Little Rock. Residential construction declined throughout the District as well. February 2011 year-to-date single-family housing permits decreased in the majority of the District metro areas compared with the same period in 2010. Permits decreased 25 percent in Little Rock, 40 percent in St. Louis, 2 percent in Memphis, and 20 percent in Louisville.

Commercial and industrial construction activity continues to be slow throughout most of the District. Commercial construction contacts in Missouri and western Illinois reported an increase in institutional projects but noted a scarcity of construction activity in the St. Louis area. Contacts in Louisville reported that there has been little change in commercial and industrial construction activity but there is some increase in industrial space leasing. A contact in Arkansas noted that commercial construction has remained steady while contacts in south central Kentucky noted some increased activity in commercial real estate as well as construction. A contact in St. Louis reported an increase in commercial construction inquiries but noted that it remains difficult for developers to finance projects.

Banking and Finance

Total loans outstanding at a sample of small and mid-sized District banks decreased 3.2 percent in the three-month period from mid-December to mid-March. Real estate lending, which accounts for 74.9 percent of total loans, decreased 1.3 percent. Commercial and industrial loans,

accounting for 15.4 percent of total loans, decreased 8.7 percent. Loans to individuals, accounting for 5.0 percent of loans, decreased 2.6 percent. All other loans decreased 16.7 percent and accounted for 4.7 percent of total loans. Over this period, total deposits decreased 1.7 percent.

Agriculture and Natural Resources

Commercial red meat production in the Eighth District rose by 0.2 percent in February 2011, compared with February 2010, while year-to-date production at the end of February 2011 was 2 percent higher compared with the same period in 2010. Year-to-date estimates for the number of chickens slaughtered and for total live weight at the end of February 2011 were 2.3 percent and 3.7 percent higher, respectively, compared with 2010 figures. The District's year-to-date coal production at the end of February 2011 was 8.5 percent higher than in the same period in 2010.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy expanded moderately since the last report. Increased activity was noted in consumer spending, tourism, commercial construction and real estate, manufacturing, energy and mining, and agriculture. The services sector was mixed, and residential construction and real estate activity decreased. Labor markets continued to show signs of strengthening, while wage increases remained subdued. Retail price increases were modest, but price pressures for inputs continued.

Consumer Spending and Tourism

Consumer spending increased. A major Minneapolis-based retailer reported that same-store sales in February were up almost 2 percent compared with a year earlier. A mall manager in North Dakota reported that recent sales were up slightly from a year ago. A representative of a retailers association expects restaurant growth during 2011 in Sioux Falls, S.D. However, retailers noted that March sales may finish lower than March 2010 sales due to the late Easter holiday.

A representative of a Montana auto dealers association reported improving sales; gas prices were not yet a factor in buying decisions. Recent North Dakota vehicle sales were healthy, and dealers were optimistic about 2011, according to an auto dealers association. A domestic auto dealer in Minnesota said that March sales were “excellent.”

Late-winter tourism activity was up from a year ago. A chamber of commerce representative reported that late-winter snowmobiling and cross country skiing were strong in northwestern Wisconsin. A Minnesota ski resort noted that February and March activity was up about 8 percent from last year. Several Montana ski areas extended their seasons due to deep snowpack.

Construction and Real Estate

Commercial construction activity increased slightly. March industrial and office permits increased in value in Sioux Falls, from a year earlier, but other commercial permits decreased; a large hotel is under construction in the city’s downtown. Commercial contractors in the Minneapolis-St. Paul area said activity increased recently, particularly for industrial and medical facilities. Residential construction decreased for the most part. The value of March residential permits in Minneapolis-St. Paul fell 52 percent from a year earlier; in Sioux Falls they fell 26 percent. However, an unanticipated increase in multifamily construction was noted, with several multifamily projects under way in Sioux Falls and Minneapolis.

Commercial real estate markets improved slightly. Office and industrial vacancy rates fell in Fargo, N.D., according to a commercial developer there. In Minneapolis-St. Paul, a commercial real estate firm noted that vacancy for high-quality office space went down, but demand for lower-quality office space remained weak; retail, hotel and industrial vacancies are expected to decrease slightly from currently high levels. Residential real estate was slow. Home sales in late March in Minneapolis-St. Paul were almost 17 percent below year-earlier levels; median sales prices fell, and inventories increased slightly. A real estate broker in Fargo said the market there was stable. In contrast, the market for rental housing in Minneapolis-St. Paul picked up. Interest in vacation homes in northern Minnesota has increased, according to a contact there.

Services

Professional business services firms reported mixed demand since the last report. A web development consulting firm noted increased demand for online marketing services. A logistics consulting company noted an increase in demand due to companies adjusting to the disruptions caused by the disaster in Japan. However, a contact from a mortgage servicer noted reduced refinancing activity.

Manufacturing

Manufacturing output was up since the last report. An April survey of purchasing managers by Creighton University (Omaha, Neb.) showed increases in manufacturing activity in Minnesota, South Dakota, and North Dakota. A consulting firm recently released a survey of 400 Minnesota manufacturing companies, which indicated that 51 percent expect increased sales in 2011 compared with 2010. A tractor maker is expanding into a Minnesota facility. A circuit board producer plans to expand in South Dakota. However, in North Dakota, an electronic components plant plans to close. Surprisingly, 41 percent of manufacturing respondents to a late March ad hoc survey by the Minneapolis Fed indicated they were somewhat unfavorably impacted by the disaster in Japan. One contact noted that plastic resin shipments from Japan have been delayed.

Energy and Mining

Activity in the energy and mining sectors increased since the last report. Late-March oil exploration activity increased from mid-February. Construction of a \$140 million geothermal energy project was approved at a Montana mine site. Iron ore mines in northern Minnesota were operating at full capacity, with expectations that 2011 production will be the highest in more than 10 years. Montana mines were operating at near capacity.

Agriculture

District agricultural producers continued to enjoy strong conditions, in spite of wet weather and spring flooding. Prices for most District agricultural commodities increased since the last report, including wheat, cattle, hogs, poultry, and dairy products. District farmers are expected to increase plantings of wheat and corn in 2011, while plantings of soybeans are expected to decrease slightly. However, some farmers have delayed plantings due to the wet conditions.

Employment, Wages and Prices

Labor markets continued to show signs of strengthening. In Minnesota, a data storage company recently noted that it might hire as many as 300 workers this year, and a power generation company expects to hire 90 employees. A manager at a South Dakota mall noticed more job openings than usual. According to a survey by an employment services firm, 13 percent of respondents in Minneapolis-St. Paul expect to increase staffing levels during the second quarter, while 6 percent expect to decrease staff. Minnesota initial claims for unemployment insurance were down 22 percent compared with a year ago. In contrast, a Minnesota-based medical device company reported plans to cut as many as 2,000 workers companywide, and a Minnesota-based computer manufacturer will lay off 600 to 900 workers companywide.

Wage increases remained subdued. Manufacturing wages in District states were up slightly in February compared with a year earlier.

Retail price increases were modest, but price pressures for inputs continued. According to the Minneapolis Fed's ad hoc survey, 25 percent of respondents increased prices for their final goods and services during the past six weeks, while 53 percent noted increased input prices. Minnesota gasoline prices at the end of March were about the same as in mid-February, but were 75 cents per gallon higher than a year ago. While a number of metals prices remained well above year-ago levels, some prices decreased slightly since the last report. In Minnesota, a chamber of commerce representative noted that a surprising number of businesses took advantage of lower commodity prices last year to negotiate deals that provided at least short-run protection.

TENTH DISTRICT - KANSAS CITY

The District economy expanded solidly in late February and March. Consumer spending rebounded in March after severe weather limited February sales. Factory production rose sharply, allowing manufacturers to rebuild inventories and fulfill a surge in new orders. Residential construction remained weak, and commercial construction rose modestly. Strong commodity prices boosted profits at energy and agricultural enterprises. District bankers reported weaker loan demand, higher deposits and improvements in loan quality. Despite tighter labor markets, especially for skilled workers, District contacts did not expect to raise wages in order to hire new workers. More manufacturers and distributors expected to pass through higher raw material and fuel costs to finished goods prices, and more retailers expected to raise selling prices in the coming months.

Consumer Spending. Consumer spending picked up following weather-reduced sales in the last survey period. After firming in late February and March, retailers expected sales to rise in the next three months. Store managers noted an uptick in sales of apparel and decorative items. One jewelry store, however, noted that high gasoline prices were cutting disposable incomes and trimming sales. After slowing in the last survey, auto dealers reported robust sales, particularly for used cars, fuel efficient vehicles, and SUVs. Dealers were optimistic that sales would rebound further. Restaurant operators reported stronger sales despite a continued decline in the average check amount. Tourism activity edged up, and vacation destinations were hiring for the summer. Colorado resorts reported the number of skiers this season exceeded year-ago levels. Some District hoteliers raised room rates in response to higher occupancy rates.

Manufacturing and Other Business Activity. District manufacturing activity expanded rapidly and business activity for high-tech service and transportation firms improved in late February and March. Factory managers reported a surge in production and shipments at both durable and non-durable goods plants. New orders jumped in March, boosting order backlogs as firms replenished finished goods inventories. Raw material inventories rose with some reports of stockpiling to meet anticipated demand and to protect against further price increases. Expectations for future factory orders, production, and shipments remained positive. Some

manufacturers were hiring workers, and others expanded the average work week. After softening in the last survey period, sales rose at high-tech service and transportation firms with further improvements expected. Transportation companies struggled to find qualified drivers, and some high-tech firms had difficulty filling specialized positions, such as software developers. With brisk demand, factories and high-tech service firms ramped up capital spending and planned additional hiring.

Real Estate and Construction. Residential real estate activity remained slow with subdued growth prospects, while commercial real estate activity stabilized with expectations for improvement. Home building edged down since the last survey period, and construction supply sales were below expectations. Even with a seasonal upturn in residential home sales, the inventory of unsold homes grew substantially as more homes were placed on the market and real estate agents anticipated further home price declines. Driven by less demand for refinancing, mortgage loan activity plummeted, and builders noted the mortgage loan approval process was taking longer. After falling in the last survey period, commercial construction activity picked up modestly and was expected to hold steady over the next three months. District commercial real estate contacts reported an uptick in sales with stable prices and rents. Office and multifamily property leasing was particularly strong. Vacancy rates remained elevated but were expected to move lower as absorption rates gradually improved.

Banking. In the recent survey period, bankers reported weaker loan demand, but also rising deposits and improvements in loan quality. Overall loan demand decreased as demand for commercial and industrial, residential real estate, consumer installment, and commercial real estate loans declined. For the fifth straight survey, credit standards remained unchanged in all major loan categories. Deposits increased further in the recent survey period. Bankers also reported improvements in loan quality compared to a year ago, and they expected further improvements over the next six months.

Agriculture. Agricultural growing conditions worsened in late February and March, but farm income and farmland values strengthened. Winter wheat crop conditions deteriorated further as drought conditions in the southern Plains intensified. While farmers are expected to plant more acres to corn and soybeans this spring, crop prices continued to rise as robust food

and bio-fuel demand was expected to strain global supplies. Livestock prices strengthened with rising demand and stronger exports, preserving profits despite higher feed costs. Producers continued to pay off loans, shrinking loan demand. Lenders, however, expected a modest rebound in demand for farm operating loans before spring planting and indicated ample funds were available for qualified borrowers. Farmland prices rose further with strong crop prices and a limited number of farms for sale.

Energy. District energy activity rose since the last survey period with plans for further expansion in the coming months. District contacts reported increased drilling activity, with exploration shifting away from natural gas towards crude oil. While many energy companies were hiring, some indicated that a lack of qualified labor and limited availability of equipment and services could constrain future drilling activity. Natural gas prices held steady at the close of the winter heating season but were expected to fall as inventory levels were considered sufficient. Crude oil prices rose sharply in late February and March, and contacts felt that political and economic instability in some producer nations would keep prices high for the near future. Ethanol profits held steady as rising ethanol prices offset higher costs of corn inputs. The Bureau of Land Management announced plans to conduct competitive lease sales of coal land in the Powder River Basin that will provide additional production for Wyoming's coal industry.

Wages and Prices. Wages generally held steady even with expanded hiring, and more firms planned to increase selling prices, especially in industries where input prices have surged. Of the companies that added staff, most were not offering higher salaries to attract applicants. With the exception of highly competitive or specialized positions, wage pressures were expected to remain contained. Many District manufacturers reported another jump in raw materials prices, and some companies had already raised finished goods prices with more firms planning to do so in the coming months. Several construction suppliers and transportation companies reported fuel and delivery surcharges were common, and higher input costs were often being passed through to customer prices. Some restaurants increased menu prices in reaction to higher food costs, and some hotels raised room rates. District retailers also expected an uptick in selling prices with stronger consumer demand.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy grew at a moderate pace over the past six weeks. Energy activity remained strong, refining activity picked up, and demand was strong for most petrochemical products. Reports from the manufacturing and non-financial service sectors were mostly positive. Financial services firms noted a slight improvement in loan demand. Conditions continued improving in the commercial real estate leasing market, and apartment demand was strong. The single-family housing sector remained weak however, and widening drought conditions were reported in the agricultural sector. Many responding firms across a wide variety of industries noted uncertainty about events in Japan and the Middle East, and some voiced concerns about shortages of parts in the near-term. Since the last report, price pressures increased, and there were more reports of hiring activity.

Prices Price pressures continued to build since the last report. Many responding firms said high fuel prices were causing their input costs to rise, and contacts in the lumber and transportation services industries increased selling prices in response. Some manufacturers noted steel prices had risen, and most construction respondents said metal and petroleum based products, such as rebar, copper and asphalt had increased in price. In the service sector, airline fares were up significantly due to increases in the price of jet fuel. Legal contacts noted slight increases in billing rates, and retailers continued to report upticks in food prices.

The price of crude oil rose from \$85 per barrel in mid-February to over \$100 per barrel in late March. Natural gas prices receded early in the reporting period as cold weather subsided, but strengthened again to over \$4 per Mcf at the end of March, due to geopolitical uncertainties and rising crude oil prices. Prices for most petrochemical products increased since the last report, according to respondents.

Labor Market There were increased reports of hiring activity compared with the previous reporting period. Staffing firms continued to note strong demand and were hiring for their own needs at a stronger pace than in the last report. Some transportation, food and primary metals manufacturers reported employment increases. A few contacts in the auto sales, railroad and airline sectors also noted a rise in hiring activity. Wage pressures were minimal, although some fabricated metals contacts were considering increases.

Manufacturing Demand for construction-related products improved slightly, according to most contacts. Even after accounting for pent-up demand following bad weather in early February, cement, glass and primary metals firms and some lumber manufacturers reported some increase in activity. Apartment construction, residential repair and remodeling, and custom commercial projects were said to be driving the uptick. Fabricated metals producers said orders rose, but at a slightly slower pace. While overall activity is at low levels, most construction-related manufacturers' outlooks were more optimistic than they were six weeks ago, although there were some concerns regarding recent world events.

High-tech manufacturing firms said the fallout from the ongoing natural disaster in Japan was the major factor impacting the industry since the last report. Contacts that ship a significant share of output to Japanese factories noted their profits will be negatively impacted, particularly in the first and second quarters of this year. One respondent estimated that shipments coming from at least one factory in Japan may not return to normal until September. Other than events in Japan, most firms said that conditions were stable.

Paper manufacturers said demand had mostly recovered from the slump due to bad weather in January and February. Most firms said demand was stable or improved. Expectations are mostly for stable to improved demand over the next several months, although the longer-term outlook is more uncertain. Manufacturers of transportation equipment said demand was unchanged from the previous report. Outlooks remain cautiously optimistic, although some contacts noted concern about rising fuel costs and global uncertainties. Food manufacturers said orders rose at a moderate pace, and the outlook for sales was positive.

Eleventh District petrochemical producers said domestic demand remained strong for plastics such as polyethylene and polypropylene. Still, higher U.S. prices for some petrochemicals have made exports less attractive. The major exception is PVC which is used in construction, as ample supplies and competitive prices due to low domestic demand have kept exports solid. Refiners said activity had picked up since the last report, with stronger demand for gasoline and oil products. Refinery margins rose despite the increase in crude prices.

Retail Sales Eleventh District retail sales rebounded from weather-related sluggishness in the previous reporting period and grew modestly compared to the prior year. Home furnishings sales benefitted from strong seasonal trends. According to one large retailer, the

Eleventh District continues to grow at a stronger pace than the nation, on average. Expectations are for a modest improvement in 2011 over 2010.

Automobile sales continued to improve; however, respondents note concern over potential supply chain disruptions due to the ongoing natural disaster and nuclear calamities in Japan. Aside from these concerns, automobile dealers reported a favorable outlook for the balance of 2011 due to strong foot traffic consisting of high-quality customers.

Services Staffing firms said demand held steady at high levels. Strength remains broad-based, with particularly strong demand coming from the steel, oil, customer service, IT and professional industries. All contacts had positive outlooks and expect continued strength in 2011.

Demand for accounting services increased since the last report, as is typical for this time of year. One large firm noted that activity picked up noticeably for transactional business and mergers and acquisitions services. Continued improvement in business has reduced the pressure to keep fees low. Legal contacts noted mostly steady demand, with some strength in corporate services.

Reports from transportation services contacts were mixed, but mostly positive. Intermodal transportation firms noted cargo volumes declined due to weaker demand from international clients. Railroad shipments increased moderately, with particularly strong volume growth in ores, motor vehicles, petroleum products and industrial construction materials. Container trade volumes flattened over the reporting period. Airlines reported continued steady traffic, although contacts noted that fare increases stemming from higher fuel costs could slow bookings. Most transportation services respondents were optimistic in their outlooks and expect growth in demand this year.

Construction and Real Estate Eleventh District housing activity remains weak, and contacts expect more of the same in the coming months. Outlooks for the second half of the year were slightly more upbeat. Respondents said the first-time homebuyer market continues to deteriorate, but some realtors and builders said higher-end homes sales had increased modestly.

Apartment demand accelerated since the last survey, and contacts said occupancy rates were improving and rental rates were rising. While construction activity is picking up, demand continues to outpace supply suggesting conditions will continue to improve in the near-term.

Office and industrial leasing activity picked up slightly since the last report. With construction of office buildings and warehouses at very low levels, contacts say the modest

acceleration in demand for space is likely to have a positive impact on vacancy rates this year. Sales of commercial property remained at low levels, although contacts noted a small uptick in sales of foreclosures and distressed properties.

Financial Services Financial firms reported a slight improvement in overall loan demand. National banks reported some pickup in commercial and industrial (C&I) loan demand with increased corporate activity, while they continue to see weakness in commercial real estate (CRE). Regional banks noted that loan demand remains pretty flat, although there was a small increase in optimism regarding homebuilding and some CRE lending at the community-bank level. Most contacts said loan pricing remains aggressive amidst a highly competitive lending landscape. Outlooks are gradually improving in light of better outstanding loan quality and continued slow progress in lending conditions.

Energy Drilling activity remained strong in Texas since the last report, with the state accounting for much of the increase in the U.S. rig count. The trend toward more oil-directed drilling continues. Although fewer rigs are directed to natural gas, those drilling for gas provide high levels of activity for service companies according to respondents. Contacts noted growing backlogs for horizontal drilling equipment and for crews used for both oil and natural gas activity.

Agriculture Drought conditions became more widespread in March, covering more than 90 percent of the district. Hay production was down and wheat and oat crop conditions were poor. The lack of soil moisture is a large concern for spring crops, although planting was underway and mostly on schedule. Demand for agricultural products remained strong. Commodity and beef prices generally moved up, with scattered reports of rising food prices at the retail level. Input costs such as fuel, fertilizer and feed have risen, pushing up the cost of crop and livestock production.

TWELFTH DISTRICT–SAN FRANCISCO**Summary**

Economic activity in the Twelfth District expanded moderately during the reporting period of late February into the beginning of April. Price increases for final goods and services remained modest overall despite gains for selected commodities, and upward wage pressures were limited as well. Sales of retail items and demand for business and consumer services continued to expand. Manufacturing activity in the District grew further. Sales of agricultural products were robust, and demand edged up for natural resource products. Demand for residential and nonresidential real estate remained subdued. Contacts from financial institutions reported small but widespread increases in loan demand.

Wages and Prices

Price inflation for final goods and services was modest during the reporting period. Although prices remained elevated for an assortment of raw materials and commodities and rose further for some, such as oil, the pass-through to final prices was quite limited, with the noteworthy exceptions of food and gasoline. For most other retail goods and services, prices continued to be held down by subdued demand and vigorous competition.

Contacts in most sectors reported that upward wage pressures remained weak. High unemployment and limited hiring kept compensation gains at low levels in most regions and sectors, although significant upward wage pressures were noted for workers with advanced skills in technology fields. Looking ahead to the next six months, the reports indicated that wage gains are likely to pick up somewhat as more businesses eliminate wage freezes established during the downturn.

Retail Trade and Services

Retail sales continued to improve overall. Traditional department stores and discount retail chains alike reported further increases in sales. Similarly, sales revenues rose for grocers; contacts attributed the gains in part to higher food prices in addition to increased sales volumes. Despite some indications of rising appetites for discretionary spending, consumers remained largely focused on necessities and lower-priced options across a wide spectrum of products. Retailers of major appliances and furniture reported that activity remained subdued. Demand for new automobiles strengthened further, propelled partly by manufacturers' rebates and improved availability of credit. Looking forward, some retail contacts expressed concern that elevated gasoline prices will reduce sales of other items.

Demand for business and consumer services rose further. Activity expanded among providers of transportation services, with gains in cargo traffic reported for major District seaports. Providers of professional services, such as law and accounting, reported modest demand growth. Suppliers of energy services noted further increases in deliveries to households and businesses, and sales continued to grow for providers of technology services. Contacts from several parts of the District reported further growth in business travel and tourism activity, although Japanese tourist visits to Hawaii fell significantly following the March 11 earthquake and tsunami in Japan. Demand fell slightly for providers of health-care services, as some patients reportedly have been forgoing elective procedures.

Manufacturing

Manufacturing activity in the District posted further gains during the reporting period of late February into the beginning of April. Makers of commercial aircraft and parts reported modest ongoing growth in new orders, attributed in part to increased demand from airline

companies for aircraft with greater fuel efficiency. For manufacturers of semiconductors and other technology products, demand continued to grow, with high levels of capacity utilization and balanced inventories noted. Sales rose further for metal fabricators, although contacts reported minor production challenges arising from constrained supplies of raw materials. Demand remained especially weak for manufacturers of wood products, with the exception of firms in the pulp and paper segment of the industry, which saw increases in orders and output. Petroleum refiners reported slight gains in gasoline sales volumes compared with twelve months earlier, despite the demand constraints arising from higher prices and poor weather, and capacity utilization rates were up accordingly. Demand continued to grow for food manufacturers.

Agriculture and Resource-related Industries

Production activity and sales were robust for agricultural products and grew further for metals and natural resources used for energy production. Final sales and orders for most agricultural products, including livestock and a wide variety of crops, continued to expand. As a result, contacts noted rising prices and constrained availability for selected inputs, including fertilizer, seeds, and machinery such as tractors. District mining activity expanded, as higher prices for assorted metals have spurred investments in new capacity. Demand for crude oil was slightly above its level from twelve months earlier, while extraction activity for natural gas expanded, increasing supply and causing the price to decline.

Real Estate and Construction

Activity in District residential and nonresidential real estate markets remained at very low levels overall, albeit with slight improvement noted in some market segments and areas. The sales pace for new and existing homes was mixed across the District but remained very weak overall, and contacts again noted that the limited availability of nonconforming “jumbo” loans

held back sales of higher-priced homes in some areas. In response to sluggish sales, new home construction stayed quite subdued. However, demand for residential rental space grew further in some areas, and reports noted modest increases in the construction of apartment buildings.

Demand remained weak overall in commercial real estate markets, as vacancy rates for office and industrial space remained elevated throughout the District. However, further gains in leasing activity were noted for some major markets in the District, particularly in technology-intensive portions of the San Francisco Bay Area.

Financial Institutions

District banking contacts reported that loan demand was up compared with the prior reporting period. Demand for commercial and industrial loans rose perceptibly, as businesses in a variety of sectors reportedly showed increased interest in expansionary capital spending.

Demand for consumer credit also grew slightly. The reports indicated that competition among lenders to extend credit to well-qualified small and medium-sized businesses has intensified, placing downward pressure on rates and fees. Overall, however, lending standards remained somewhat restrictive for most types of consumer and business loans. Venture capital financing activity and investor interest continued to grow, particularly for companies focused on Internet and wireless applications and digital media.