The Federal Reserve Board

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Summary of Commentary on Current Economic Conditions by Federal Reserve District

Summary

Prepared at the Federal Reserve Bank of Boston and based on information collected on or before April 11, 2005. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Reports from all twelve Federal Reserve Districts indicate that business activity continued to expand from late February through early April. Kansas City and San Francisco noted solid growth, Chicago and Dallas characterized growth as moderate, and Atlanta reported a robust pace. By contrast, while citing positive growth, New York and Cleveland mentioned uneven progress across sectors, and Richmond stated that signs of improvement in April followed a restrained March.

More than one-half of the Districts reported that retail activity was up, from modestly to strongly. Among the remaining Districts, Chicago said consumer spending was subdued, Dallas noted that retailers were disappointed with recent growth, and Cleveland reported some deterioration after improvement earlier in the year. Tourism was generally doing well in those Districts that mentioned it.

Districts described manufacturing activity as ahead of year-earlier or previously-reported levels, with reports ranging from "rising briskly" in the Kansas City District to "continuing at solid levels" for contacts around Chicago. Information on service industries was generally positive. Residential real estate markets remained strong across most of the country, while commercial real estate conditions varied. Price pressures have intensified in a number of Districts, and most report that high or rising energy prices are a concern across sectors.

Consumer Spending and Tourism
The majority of Districts experienced improving retail sales overall, but several showed flat or disappointing results. In Minneapolis, contacts indicated that retail sales increased between 5 percent and 12 percent over the previous year. St. Louis also reported strong growth, with Boston, Philadelphia, Atlanta, Kansas City, and San Francisco recording modest to solid gains. Among the remaining five Districts, New York, Chicago, and Dallas characterized consumer spending growth as either subdued or disappointing, while Cleveland and Richmond cited mixed trends during the reporting period. Contacts in these five Districts attributed sluggish spending in part to unfavorable weather conditions, and in part to high or rising energy and gasoline prices. Retail selling prices were described as reasonably stable to

date, although some contacts cited evidence of increased prices and pricing power.

New vehicle sales were flat or slightly up in most of the Districts reporting on this category. The exceptions were San Francisco, which reported strong sales, and Dallas, where car sales were weaker than a year ago. Contacts in several Districts also mentioned softening demand for domestic vehicles, especially trucks and SUVs, although most dealers in the Richmond District said they had not seen a shift to smaller cars despite higher gasoline prices. In other product categories, apparel and jewelry sales were strong in many regions.

Spending on travel and tourism improved throughout much of the country. New York and San Francisco reported brisk activity compared with a year ago, citing rising occupancy rates and higher revenues per room. Bolstered by foreign visitors, Florida recorded high passenger counts on cruise lines and robust bookings at theme parks. Boston, Philadelphia, and Kansas City also reported stronger tourist-related growth. Weather was an important factor in the Richmond, Chicago, and Minneapolis Districts, as areas with favorable winter weather enjoyed increased business while those with bad weather saw flat or sluggish growth.

Service Industries

In general, firms in the service sector enjoyed a moderate increase in activity. St. Louis reported expansion in most areas, and San Francisco noted solid demand growth, especially in health-care, transportation, and food services. According to Atlanta, temporary employee hiring maintained a brisk pace, while Philadelphia, Cleveland, and Richmond observed some pickup in demand at employment agencies. By contrast, Chicago and Dallas indicated more modest growth at temporary staffing firms. Demand for trucking and shipping services in several Districts reportedly eased somewhat as firms began passing on higher fuel costs to customers. However, Philadelphia reported increased trucking activity despite higher freight rates. Dallas cited strong conditions in the accounting industry, while business at law firms remained unchanged. Boston identified robust demand at both advertising and management consulting firms.

Manufacturing

The updates on manufacturing were largely positive. Eleven of the twelve Districts indicated that production or orders were rising, while Chicago characterized activity as continuing at solid levels with the exception of continued weakness in light vehicle production. Several Districts with largely upbeat reports nevertheless indicated that increases in manufacturing output may be moderating a little. For example, New York cited a "loss of momentum" in the manufacturing sector, and Cleveland stated that "many firms noted flattening new orders growth" for durable goods.

Districts reported strong or rising demand for various durable goods, including building materials, machinery and machine tools, fabricated metals, energy-related equipment, and defense equipment. Shortages of tires and metal parts were said to be constraining heavy truck and other production in Chicago, Minneapolis, St. Louis, and Kansas City.

Manufacturers in all Districts were reportedly facing rising costs for a variety of inputs, most notably energy, transportation, petrochemicals, and other petroleum-based products. Moreover, according to Dallas, expansions of petrochemical capacity are not expected to provide price relief for at least another year. On the other hand, several Districts mentioned that steel prices were stabilizing, albeit at high levels, and Philadelphia's survey revealed that the number of companies saying prices had risen in March was lower than it had been during the fall and early winter.

Overall, manufacturers' output prices appear to be rising modestly. Most Districts found that firms were having partial success passing on higher energy and materials costs to their customers. However, several cited instances of firms having to rescind price increases and accept lower margins. Reduced margins remained the norm in the Cleveland District, and rising energy costs were specified as a source of "concern" or "caution" among manufacturers in New York, St. Louis, and Dallas.

Labor demand in the manufacturing sector appears to be mixed, with some Districts placing more emphasis on additions to employment and others on cutbacks. District reports on capital spending tended to be moderately positive. Kansas City referred to "solid growth" in capital investment, and Philadelphia took note of the fact that very few companies expect to reduce their capital spending in the coming six months. Nevertheless, Boston described manufacturers as "closely managing" their capital expenditures.

Real Estate and Construction
Residential real estate markets were very active during March and early April, with Districts noting increased activity levels compared with the previous report. Demand for houses was strong and residential sales were high in three-quarters of the Districts. New York, Richmond, and Atlanta cited low housing inventories, while Boston mentioned increased time on the market for high-priced homes. Several Districts indicated that home prices rose. Reports on new housing construction were more mixed. Atlanta, Minneapolis, Kansas City, and San Francisco said the pace of home construction was strong or picking up, but St. Louis and Dallas noted slower residential construction.

Commercial real estate markets varied. Office vacancy rates declined in New York, Richmond, St. Louis, Minneapolis, and San Francisco. New commercial construction was robust in Cleveland, Atlanta, St. Louis, Dallas and San Francisco, but slow in Richmond. Chicago reported steady vacancy and rental rates.

Banking and Finance
For most Districts reporting on financial services, demand for loans increased across a range of categories. Almost all Districts mentioned increases in commercial lending activity, and Philadelphia, St. Louis, Kansas City, and San Francisco noted industrial lending as an area of strength. The Cleveland District cited increased demand for loans to the manufacturing industry, specifically. Reports on demand for mortgages were mixed, and the New York, Chicago, and Kansas City Districts noted weakness in refinancing activity. Demand for non-bank financial services was disappointing, with New York reporting a recent slowing in the securities industry, and investment companies from the Philadelphia District noting general caution on the part of investors.

Other banking indicators were holding steady or improving in some cases. Philadelphia and Kansas City reported growth in deposits, while Cleveland cited rising core deposits at larger banks. Credit conditions and delinquency rates have improved according to the New York, Chicago, and San Francisco Districts, and held roughly the same in the Dallas and Chicago Districts.

Agriculture and Natural Resources
Planting activities are under way in the agricultural Districts, which generally reported good spring conditions. By exception, wet weather has caused delays in parts of the Richmond and

Atlanta Districts, while drought conditions continued or worsened in parts of the Minneapolis and Kansas City Districts. Still, contacts indicated that the winter wheat and other crops are generally in good shape, as are range land, pasturage, and livestock. However, canker disease required destruction of part of the Florida citrus crop. In addition, growers in the Chicago, St. Louis, and Minneapolis Districts are cutting planned soybean acreage, reflecting some concern about soybean rust. Chicago, Kansas City, and San Francisco contacts noted that fuel, fertilizer, and other input costs are rising. Chicago bankers voiced concern that higher rents and interest rates could adversely affect cash flow at large farming operations. Atlanta contacts reported strong export demand for cotton and poultry, while Dallas noted improved selling prices for wheat, corn, and soybeans and favorable prices for livestock.

Minneapolis, Kansas City and Dallas reported that activity in the energy sector is revving up. According to contacts in Dallas, the U.S. rig count is at the highest level since 1986, and drilling plans are increasing faster than predicted earlier this year. Kansas City respondents noted that shortages of labor and equipment are keeping drilling activity slightly below desired levels at some firms, while some Dallas contacts say they are thinking of adding capacity. In San Francisco, drilling costs are rising. Dallas contacts report that producers are turning their attention to coal-bed methane, tight gas, tar sands, and gas shale, while service companies seek to create new products to support the development of unconventional resources. In the Minneapolis District, a large-scale wind energy project is planned for Montana. Mining activity is also on the rise, with output stable or growing at Montana's iron, palladium/platinum, and copper mines.

Prices and Wages
Reports from many Districts suggested that upward price pressures have strengthened, although actual increases to date in vendor prices and selling prices have generally remained moderate. Much of the pressure derives from energy costs, although contacts cited the lower dollar and rising costs of building materials as well. Most Districts said manufacturers, retailers, or services firms were able to pass at least a portion of cost increases along to their customers. However, only Chicago and Dallas suggested that some contacts have raised prices enough to increase margins or profits.

In two-thirds of the Districts, retail or tourism contacts expressed concern that high energy prices were already, or could soon be, damping consumer demand. Distribution (shipping, trucking, freight, delivery) firms and utilities shared similar apprehensions, having imposed fuel surcharges in many cases, according to Cleveland, Richmond, Chicago, and Minneapolis. As noted above, manufacturers also mentioned rising energy costs. San Francisco stated that increasing costs have prompted manufacturers to "keep production as close as possible to demand," and Dallas indicated that uncertainty about energy prices has added caution to the outlook for business activity.

Boston, Richmond, Chicago, Minneapolis, and Kansas City reported modest or moderate wage increases in various sectors, as labor markets in a few areas or occupations became somewhat tighter. By contrast, Cleveland cited stable wages in trucking, and Dallas said its contacts saw little or no wage pressure. Atlanta, Chicago, Dallas, and San Francisco indicated that benefits costs, especially health care, continue to rise.

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First District--Boston

First District businesses contacted in early April report that activity continues to expand. Most retailers say first quarter sales were up from a year ago; responding manufacturers' revenues and orders are generally ahead of year-earlier levels. Some retailers and manufacturers, however, suggest they are keeping a tighter rein on capital spending recently than in previous quarters. Advertising and business consulting firms report strong demand. Residential real estate markets in some parts of the region remain robust; other areas are leveling off.

Retail and Tourism
Most First District retailers report positive sales growth in the first quarter compared to a year earlier, and a strong recovery in February and March from the poor weather in January. Year-over-year first quarter sales ranged from down 6 percent to up 9 percent, and respondents with lower sales attributed them to strong results in 2004. Flat panel televisions, MP3 players, lumber, and furniture remained particularly strong sellers and apparel sales were still strong.

Vendor prices are mixed; for example, dairy prices are said to be up, television prices are falling, and lumber remains volatile. Most retailers are passing price increases along to consumers, but in the restaurant business, competitive pressures are keeping prices stable. Inventories are steady or higher than expected among contacts. Employment levels vary as some respondents increase headcount for new stores or to emphasize service, while others keep head count low reflecting increased productivity. Employment is flat or falling at the corporate level, and wages are steady. Respondents report holding back on capital spending more now than in recent quarters.

Travel and tourism revenue is said to be strong in comparison to a weak base from 2004. Boston area first quarter hotel revenue per room was up double-digits from a year ago; while business travel increased and international travel was up 8 percent, most of the change came from an increase in room rates. Pent-up demand from waning geopolitical turbulence as well as a lower dollar are expected to boost international travel, although increases in fuel prices may temper the growth.

Most retailers are optimistic about the economy and expect modest or strong growth in the coming year. However, they remain concerned about the effects of energy prices on consumers' discretionary income. Those in the furniture and lumber industries are also wary about the effects of rising interest rates on housing starts.

Manufacturing and Related Services
Most First District contacts in manufacturing and related services report that sales and orders in the first quarter were moderately above year-earlier levels. Demand for aircraft, energy-related, and defense-related equipment rose more than average. By contrast, respondents in the furniture industry say their sales have slumped below year-earlier levels, perhaps the result of import competition.

Contacts continue to indicate that they are paying more for energy, transportation, petrochemicals, and some metals. There is also new mention of firming prices for telecommunications services. On the other hand, some companies have seen their input costs fall as a result of increased sourcing in Asia, and one company says that the upward pressure on steel costs has abated. Respondents generally say that their selling prices are steady or increasing a little. They note that customers are more understanding of the causes for price increases or that competition has become somewhat less intense than it had been during the last several years.

Manufacturers are hiring for sales, marketing, and R&D positions. They are continuing to shed other positions as a result of efficiencies introduced through new technology or acquisitions. The net changes are usually small. Some respondents mention that tighter labor markets are resulting in slower hiring or higher attrition in certain professional and technical fields. Merit pay increases generally are expected to average 2.5 percent to 4 percent in 2005.

Contacts are managing their capital expenditures closely, and a capital goods producer indicates that its customers are adding more "checks and balances" into the capital spending process. Several respondents need to add capacity, although not necessarily in the United States.

Most of the contacted manufacturers indicate that they expect to stay "on track" throughout 2005. However, they tend to be planning carefully, on the assumption that the general economy or their markets are unlikely to experience rapid growth this year.

Selected Business Services

Advertising and management consulting companies enjoyed healthy demand growth in Q1 2005, building on gains made in 2004. Respondents believe client companies' budgets are less constrained than in the recent past, and that the strategic focuses of these companies have shifted somewhat from cost-cutting and productivity to augmenting sales and revenue. Within advertising and marketing, demand for data and market analysis services is growing notably well. Demand from clients in technology-related industries appears healthiest, while reports on healthcare demand are mixed, and government-related demand is said to be weak.

About half of responding business services companies have been able to raise prices in the past year, while the remaining companies are managing with steady prices and improving market conditions. Business costs are under control, although competition for employees seems to be pushing up labor costs in some cases. Most responding companies are adding to their headcounts and raising wages, although not aggressively. All respondents express positive views, expecting revenue growth to remain the same or accelerate slightly over the course of 2005.

Residential Real Estate

Residential real estate markets in New England remain active. However, contacts report softening markets in some parts of the region, even though the slowdown is not yet noticeable in the number of sales or in average sale prices. Lower- and mid-priced homes continue to sell quickly in most areas, and the inventory in those price ranges remains low. Markets in Massachusetts, New Hampshire, and Vermont continue to prosper. In Massachusetts, the number of sales and median sale prices exceeded last year's values in January and February, and the number of condominiums sold in the state beat all previous records for those two months. Contacts attribute some of the strength to anticipated increases in mortgage interest rates. By contrast, one market in Rhode Island, for example, saw the number of listings priced below $300,000 rise to 60 from 14 a year ago. Time on the market has also increased in many areas, especially for high-priced houses. Some of the slowdown is said to be due to sellers' reluctance to lower their asking prices. Contacts anticipate further moderation of activity levels, especially if interest rates rise in the next few months.

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Second District--New York

The Second District's economy has continued to grow, on balance, since the last report, with considerable variation across sectors. There have been increasing signs of price pressures in some industries. Manufacturers report a slowing in growth of activity and note fairly widespread increases in input costs but only a moderate escalation in selling prices. Retailers indicate that March sales were on or below plan, largely reflecting unfavorable weather; however, hotels and other tourist-related businesses continue to report pronounced strength.

Residential real estate markets were extraordinarily robust in the first quarter and that strength appears to be carrying over into the current quarter. Office and industrial markets were moderately stronger in the first quarter. Although the securities industry showed strong growth in activity, revenues and profits in the first quarter, business has slowed noticeably in recent weeks; escalating input costs are reported in the industry. Finally, bankers report continued modest declines in delinquency rates; they also indicate steady to slower loan demand from the household sector but increased demand for commercial loans.

Consumer Spending
Retailers report that sales were mostly below plan in March, held down by unseasonably cold and wet weather; most contacts also surmise that their customers have been pinched by high energy costs. Compared with a year earlier, same-store sales ranged from a 4 percent gain to a 13 percent decline, despite the early date for Easter, which was expected to boost apparel sales. Sales of lawn and garden merchandise, casual apparel and other seasonal goods were described as especially weak, while goods for the home were generally characterized as sluggish. Though one contact indicates some overhang, inventories were generally said to be at desired levels. Retail chains indicate that selling prices have risen slightly, though this is partly attributed to a gradual shift in the sales mix towards more upscale goods. Consumer confidence retreated in March, based on the Conference Board's survey of Middle Atlantic state (NY, NJ, PA) residents.

Indicators of tourism, primarily in New York City, signaled exceptional strength in the first quarter. Manhattan's hotel occupancy rate was nearly 7 percentage points higher in February than a year ago, and total revenues were up more than 20 percent; there are indications that March was almost as strong. Hotels in the Buffalo-Niagara Falls area also report that occupancy rates were up noticeably in early 2005 compared with a year earlier. Broadway theaters report a sharp pickup in activity since the last report: in March, attendance was up 7 percent from a year earlier, while revenues were up 9 percent, with the strongest gains coming at the end of the month. Two major Manhattan department stores report that brisk tourism has buoyed their sales. Passenger traffic at district airports is reported to be increasingly robust--volume at New York City area airports recently rose above pre-9/11 levels, with one airport currently said to be at full capacity; Buffalo's airport also reports brisk passenger traffic. Very strong growth is also reported in bridge and tunnel traffic.

Construction and Real Estate
Housing markets appear to have gained further momentum in March. Contacts in Manhattan's real estate industry report 15 to 20 percent price appreciation for apartments over the past year and 6 to 10 percent increases in unit sales. The inventory of homes on the market is said to be lean and little changed from a year ago, and units are staying on the market for an unusually short time. One large real estate firm reports that March was their

strongest month ever, in terms of revenue, and that bidding wars remain fairly common. Another contact notes that several large mortgage lenders will soon be entering the New York City market. Demand for single family homes across New York State has shown persistent strength in early 2005--though sales volume has tapered off somewhat recently, prices have continued to appreciate at a double-digit rate.

Commercial real estate markets across the New York City metro area strengthened moderately in the first quarter. Office markets in Manhattan and northern New Jersey tightened in the first quarter, with vacancy rates declining and rents rising; some softening in Lower Manhattan's market was more than offset by further strength in the Midtown and Midtown South areas. Sales of office space weakened slightly in Northern New Jersey, but continued to strengthen in both Lower and Midtown Manhattan. Office vacancy rates edged up in Long Island and Westchester and Fairfield Counties but were still down from a year earlier, while rents were up modestly. Sales of office buildings were reported to be exceptionally strong in both Lower and Midtown Manhattan, though some weakening was reported in northern New Jersey. Industrial markets also strengthened: compared with a year earlier, vacancy rates were down and industrial rents were up nearly 7 percent across the New York City metropolitan region.

Other Business Activity
Manufacturing contacts report a loss of momentum in March and early April. The April Empire State Manufacturing Survey indicates a leveling off in activity. Many manufacturing contacts cite soaring energy prices as a major concern. More broadly, though, while respondents continue to note widespread increases in input costs, selling prices are reported to be stable to up moderately. Purchasing managers report mixed results for March: those in the New York City and Rochester areas indicate some leveling off in activity and steady costs for manufacturing inputs; however, purchasers in the Buffalo area note an acceleration in business activity and persistent widespread cost pressures. There are reports of expansion in Long Island's defense industry.

The securities industry, which had shown brisk growth in activity, revenues and profits in the first quarter, is reported to have weakened noticeably starting in mid-March and continuing into April, portending a second quarter slowdown. An industry contact reports fairly rapid escalation in wages and costs of most business inputs--consultants, auditing, printing, software engineering and other business and professional services, as well as catering and various business supplies.

Financial Developments
Small to medium-sized banks in the Second District report increased overall demand for commercial loans and non-residential mortgages, but little change in demand from the household sector. Bankers again indicate declines in refinancing activity. Little or no change is reported in credit standards, except for commercial and industrial loans, where there was some tightening, on balance. Respondents report widespread increases in interest rates, both on deposits and loans--particularly on commercial mortgages and commercial and industrial loans. Finally, bankers report declining overall delinquency rates, with 17 percent reporting overall decreases and no bankers reporting increased delinquencies in any loan category.

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Third District--Philadelphia

Business activity in the Third District increased in March. Manufacturers reported rises in orders and shipments during the month. Retail sales of general merchandise were up modestly compared with the previous month and with March of 2004. Auto sales rose from February to March and were slightly above last year's level. Banks reported that lending continued on an upward trend. Firms in the service sector indicated that their business activity was rising at a moderate pace.

Third District business contacts generally expect further improvement in the region's economy in the months ahead. Manufacturers expect increases in shipments and orders during the next six months. Retailers anticipate an improved rate of sales during the spring, with modest year-over-year gains. Auto dealers also expect sales to pick up in the months ahead, although they do not anticipate an increase for the year as whole. Bankers forecast a roughly steady rise in overall lending. Service companies expect business to expand further at the current rate of growth.

Manufacturing

Manufacturing activity in the Third District rose in March. Around one-third of the manufacturing firms surveyed during the month reported increases in new orders and shipments compared with February, and around one-fifth reported decreases. Order backlogs at area plants were virtually unchanged from February to March, and delivery times were practically steady. Growth in business was reported among firms in most of the District's major manufacturing industries, the most widespread gains being among producers of metals and other industrial materials.

The region's manufacturers generally expect further growth in business activity. Nearly half of the firms surveyed in March expect their shipments and orders to increase during the next six months, and around one in ten expect decreases. A substantial portion of the region's manufacturing firms surveyed in March (about one-third) plan to increase capital spending during the next six months, and very few expect to reduce it.

Third District manufacturers reported rising prices in March, on balance, although the number of firms noting increases during the month was somewhat lower than in the fall and early winter. Firms in all but a few of the major manufacturing industries in the region indicated that they had experienced increased input costs and raised prices for their own products in March compared with February. During the next six months 50 percent of the manufacturers polled in March expect increases in input prices, and about 10 percent expect decreases. About 30 percent plan to increase the prices of their own goods, and about 10 percent expect to reduce prices. This represents somewhat less widespread expectations of higher prices than prevailed during the fall and early winter.

Retail

Retailers reported slight increases in sales in March compared with February and with March of last year. Most indicated that unseasonably cold and rainy weather held down sales of spring apparel and other seasonal merchandise. As a result, sales for the month were below most stores' plans. Stores that specialize in luxury goods continued to post better year-over-year sales gains than stores selling less expensive merchandise. Retailers expect sales growth to improve as spring progresses, and most anticipate sales for the rest of the year will be modestly above last year. Store executives generally indicated that the wholesale cost of most of the goods they buy has not risen much so far this year. They also reported that they have not raised selling prices significantly.

Auto dealers in the region reported a healthy increase in sales in March compared with February, although compared with March of last year the increase was slight. Inventories continued to be above desired levels, except for some imported models. Most of the dealers contacted for this report said they expect sales to move up further during the spring, although they anticipate sales for this year as a whole will be down from last year. Dealers said manufacturers are continuing to offer high levels of rebates.

Finance
The volume of loans outstanding at Third District banks rose in March compared with February, according to banks surveyed for this report. Commercial and industrial loans have been increasing fairly strongly, with new borrowing being done by firms in a wide range of industries. Commercial bank lending officers reported that prospective business borrowers are increasingly requesting fixed-rate loans and that competition among lenders was limiting rate increases. Bankers also reported increases in personal loans, especially home equity loans and credit lines. Looking ahead, bankers in the District expect overall lending to remain on a steady upward trend.

In general, banks in the District are meeting their deposit growth goals, although some indicated that deposits have not increased as strongly as they had expected. These banks also noted that depositors are becoming increasingly reluctant to place funds in long-term deposits because they anticipate further increases in deposit rates this year. Investment companies reported gains in cash inflows in recent weeks but indicated that inflows were down compared with the same period last year. Although investors continued to favor equity funds over bond funds, executives at investment companies said investors appear to have become more cautious about committing funds to investments of any kind.

Services
Most of the Third District service firms contacted for this report indicated that business had increased at a modest rate. General business services activity has been on the rise, and the pace of growth has increased somewhat. Business travel and personal travel and tourism have been growing. Trucking activity has continued to increase despite higher freight rates implemented in response to rising costs for fuel, equipment, and labor in that industry. Most of the service sector firms surveyed expect business to expand further this year, at about the current growth rate.

Employment agencies in the region reported growing demand for workers, and they expect the pace of hiring this spring to be better than last year. Companies in manufacturing, trade, services, and the financial sectors have relatively stronger hiring plans than do employers in other sectors. Manufacturing and service companies indicated that they have increasing needs for workers in technical occupations. Health care workers are also in growing demand.

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Fourth District--Cleveland

From late February through the first full week in April, District business conditions continued to show signs of improvement, although somewhat less evenly than earlier this year. Among manufacturers, activity at the District's durable goods facilities continued to trend up, and contacts characterized production as steady among nondurable goods manufacturers. Reports from retailers, which had indicated an improving environment earlier in the year, suggested some deterioration in recent weeks. Residential builders saw seasonal improvements in sales, but sales were slower than at this time last year; commercial builders continued to report modest improvements in conditions. At the District's banks, commercial borrowing continued to strengthen. But demand for shipping services, while still strong, showed some signs of slowing.

Input cost increases seemed slightly less pronounced in recent weeks, with isolated increases reported for fuel and other petroleum-based products. Steel-related product prices also remain high; however, steel spot prices are expected to fall. Interestingly, effective steel prices for many firms may actually rise as contracts--many of which were negotiated when steel spot prices were much lower--are adjusted to reflect more recent spot prices. Several steel industry contracts are currently being renegotiated.

Hiring still seemed limited throughout the District, though staffing-services companies reported an increase in openings and a shrinking supply of prospective candidates. Recruiters reported that it took longer than at this time a year ago to find matches for available openings.

Manufacturing
Through the six-week period ending in early April, production levels continued to trend up at the District's durable goods producers and were also above year-ago levels. Despite the steady increases in production through the last several months, however, many firms noted flattening new orders growth. Among specific sectors, steel shipments continued to soften, but remained roughly even with the levels of this time a year ago. Contacts attributed slowing shipments to an accumulation of inventories, sluggish demand from automakers, and attempts by some customers to delay purchases until prices fall further. At District automobile plants, production has risen throughout the early part of 2005 but remains below the levels of this time last year.

Nondurable goods manufacturers reported that production was steady through the last six weeks and up slightly for several producers on a year-over-year basis. The level of new orders remained roughly flat. Though production levels have been steady for some time, many producers expect an acceleration in sales in the months ahead.

Among all manufacturers, hiring remained somewhat sluggish. Durable goods producers added to their staffs more frequently than their counterparts in nondurable goods manufacturing, though the former plan fewer increases in the months ahead. And while most nondurable goods producers plan few additions to their capital stock, many durable goods manufacturers intend to increase their investment spending through the course of the next six to twelve months, with several noting a need to increase capacity.

Input costs increased only slightly in recent weeks, though they are still up substantially from a year ago. Many manufacturers noted increases in fuel costs, though steel product prices were expected to fall. Several contacts noted that they had begun to raise prices in an attempt to restore their margins and undo the impact of a steady string of increases in input costs. However, firms have generally been unable to completely offset these cost changes, and they continued to report reduced margins.

Retail
Retailers' reports suggested a more mixed economic environment from late February through

the early part of April. Recent increases in gasoline prices were thought to be the cause of slightly weaker sales at discounters; discount retailers previously reported an improvement in the pace of sales, which some thought was tied to declining gasoline prices. Sales at District department stores were also worse than expected and below the levels of this time last year; contacts had anticipated better sales because of the Easter holiday. Unseasonably cold weather was also cited as a cause of more sluggish sales activity.

Specialty stores and grocers, however, generally reported gains in their businesses. And automobile dealers saw March sales rebound slightly. Nevertheless, apart from auto dealerships, most contacts were somewhat less sanguine about their sales prospects in the foreseeable future. While incentives reportedly remained generous at District dealerships, prices at other retail outlets were characterized as stable.

Construction
Residential builders reported an increase in sales through the six weeks ending in early April; however, most contacts attributed these gains to the typical seasonal pattern. Despite the improvement in sales, most builders reported that their sales levels were less than at this time last year, and several noted that their backlogs were weaker than desired. Several builders also indicated that the lower-price segment of the market had fared more poorly than other price points. Input costs continued to increase for builders for an array of items including concrete, steel, and petroleum; however, lumber prices stabilized, albeit at a high level. Regarding hiring, most homebuilders did not add to their payrolls in recent weeks.

Nonresidential builders continued to report rising activity, with sales for many firms exceeding those of this time last year. Firms also reported increases in inquiries from prospective clients, leaving many contacts optimistic in their assessment of the outlook. While business conditions improved across a range of nonresidential construction categories, growth in public building projects seemed particularly pronounced. Interestingly, input costs increases seemed less severe recently for many firms, though many contacts anticipate an increase in concrete and steel prices. Builders reported that their prices were stable, and most had merely maintained their current staff sizes.

Banking
At banking institutions in the District, contacts characterized commercial loan demand as steady, though it slowed somewhat in March. Nevertheless, lending connected to commercial real estate, especially for manufacturing firms, was described as faring well within recent weeks. Contacts also characterized consumer borrowing as steady, despite weak demand for automobile loans. Banks reported extending home equity loans at an increasing pace in March. Larger banks in the District generally reported rising core deposits, while changes in core deposit levels were more mixed among smaller banks. Hiring remains modest at most institutions.

Trucking and Shipping
Business conditions continued to be strong for shipping firms in the District. However, for the first time in at least a year, some contacts suggested that activity may be starting to soften. Contacts reported that rising fuel costs continue to be a concern for shipping firms. While surcharges allow shippers to almost entirely eliminate the impact of increases in fuel costs, companies are worried that these increases in shipping costs will eventually dampen demand. Outside of surcharges, regular shipping rates have remained steady. Contacts reported that their firms continue to attempt to attract drivers, though wage rates remain

stable. Firms also continue to add trucks to their fleets.

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Fifth District--Richmond

Overview
Fifth District economic growth was restrained in March but showed signs of gaining momentum in early April. District services businesses generally reported modest increases in revenues, though utilities and trucking firms experienced some softening in demand for their services as they pushed through higher fuel costs. Retailers indicated that sales dipped in March--big-ticket sales were particularly weak--but partly rebounded in early April. Manufacturing shipments and orders moved higher in the weeks since our last report though factory employment contracted somewhat. Real estate agents continued to report robust housing markets in many areas of the District, and bankers said that lending activity increased in most categories. Despite higher oil prices, business contacts generally reported that prices for their products and services continued to rise only modestly. In agriculture, excessive rain hampered planting and field work, but crops and pastures were generally in good condition.

Retail
District retailers said that sales slipped a bit in March but gained ground in early April. For March, shopper traffic was generally light and big-ticket sales were sluggish, but both measures improved in early April. Automobile dealers reported that their sales were generally mixed in recent weeks. Despite higher gasoline prices, most dealers contacted said they had not yet seen a significant shift to smaller cars. A big-box retailer reported that their sales were flat, as consumer budgets tightened due to higher healthcare costs. In contrast, a contact at a department store in central North Carolina said their sales were strong, and a sporting goods dealer in the Charleston, W.V., area said sales had been on an upswing in the last few weeks. Retail establishments in the District reported moderately higher employment and wages in recent weeks. A contact at a hardware store in central Virginia said he had boosted hiring to staff a new store, while a large bookstore in central North Carolina reported a substantially higher budget for hiring.

Services
Contacts at District services firms generally reported moderate revenue growth in the weeks since our last report. A few companies, however, noted that they had raised prices to recover higher fuel costs and had experienced somewhat slower growth in demand as a result. A national trucking firm with a presence in central North Carolina, for example, said that higher diesel fuel prices had trimmed their business in recent weeks. Contacts at electric and gas utility firms in South Carolina and Virginia said rising fuel costs would be passed through to customers in the months ahead. Employment and wages rose moderately at service-producing businesses, and prices in the sector generally continued to increase at an annual rate of less than 2 percent.

Manufacturing
District manufacturing activity strengthened since our last report, with shipments and new orders increasing moderately in March and early April. Capacity utilization contracted in March but increased in April. A plastics manufacturer in North Carolina told us he was optimistic, noting that "March was down" but adding that "the outlook is good." A

Maryland-based producer of electrical equipment held a similar view, characterizing the current slight slowdown as only temporary. Furniture makers in Hagerstown, Md., and Sumter, S.C., were upbeat and reported higher shipments and new orders in both March and April. Although oil prices were sharply higher, scrap steel prices were reported to be falling from 2004 highs, and overall raw materials prices continued to rise at an annual rate of less than 2 percent.

Finance

District loan officers reported moderately higher demand for loans in March and early April. Commercial lending edged up, boosted by stronger economic activity in most areas. A commercial lender in Charleston, W.V., said that an upturn in coal mining activity boosted borrowing to finance capital spending in that industry. Residential mortgage lenders also reported higher demand. A banker in Greenville, S.C., said that residential mortgage lending had picked up in recent weeks, as more "fence-sitters" committed to home mortgage loans. In contrast, a residential mortgage lender in Richmond, Va., said that recent increases in interest rates had damped demand for residential mortgages but that he expected a "decent" level of loan demand to continue for the next few months.

Real Estate

Residential real estate agents reported a pickup in activity in March and early April. A Washington, D.C., agent said his office had been "extremely busy," and that houses placed on the market continued to receive multiple offers. An agent in Virginia Beach, Va., said that homes in that area were moving fast and that buyers continued to pay more than list price there. Several contacts indicated that it was becoming exceedingly difficult to find land to build on and to secure approval from municipalities to construct new homes. A Washington, D.C., agent said that some builders were buying several small lots and combining them into one large lot in order to build larger, mansion-like homes--a process he labeled "mansionization." Agents in a number of areas reported low inventories of homes and rapidly rising prices.

Commercial real estate agents reported a notable increase in leasing activity in the weeks since our last report. Activity was strongest in the office and retail segments of the market; in contrast, industrial leasing remained stagnant. Contacts in Raleigh, N.C., and Columbia, S.C., said that their phones were ringing again as clients finally seemed to be emerging from the "winter doldrums." Washington, D.C., remained, by far, the busiest market in the District. "There continues to be an unbelievable appetite for product in this market," noted a Washington, D.C., contact. The increase in leasing activity led to a firming of rents in most areas. While commercial construction activity was generally slow, there were numerous reports of older office and retail space being converted into upscale condominiums.

Tourism

Tourism was generally mixed since our last report. Mountain resorts in Virginia and West Virginia wrapped up a strong ski season and contacts noted that an early Easter lengthened the season and increased holiday bookings. In contrast, contacts along the coast said that unseasonably cool temperatures and higher gasoline prices had hurt tourism activity there. In Washington, D.C., over 1 million tourists attended the 93rd annual National Cherry Blossom Festival, a record attendance for the event.

Temporary Employment

Contacts at temporary employment agencies reported that stronger economic activity drove up the demand for temporary workers since our last report. An agent in the Washington, D.C., area told us that distribution center workers were particularly sought, in part because "a lot more goods were being shipped now." Citing the low unemployment rate in the Washington, D.C., area, a temporary employment agent looked for a shortage of workers in coming months and predicted that employers would have to increase wages to attract and retain workers.

Agriculture
Above-normal precipitation in March and early April hampered planting and limited field work in many areas of the District. Excessive rains delayed corn planting in Maryland and North Carolina and muddy fields slowed field work in Virginia and West Virginia. Corn planting in South Carolina was 33 percent complete by early April, somewhat below the five-year average of 40 percent by this time of year. In addition, Maryland and South Carolina farmers reported that the development of small grain crops was on track and the crops were in generally good condition. Pastures and livestock were also in good condition.

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Sixth District--Atlanta

Summary
Sixth District business contacts reported that the pace of economic activity was robust in March and early April. Retail sales were generally strong, although auto sales were mixed. Reports on tourism remained upbeat, particularly in Florida where foreign visitors boosted overall activity. Housing construction and sales continued strong in most areas, while commercial markets displayed further improvement, albeit from low levels. Strong demand conditions boosted most manufacturing industries. Hiring expanded at a modest pace with numerous firms indicating they were relying on temporary staffing firms to fill job openings. Higher fuel prices raised operating costs for many producers and service providers. Overall, firms noted that they were able to pass along a portion of these increases to their customers.

Consumer Spending
District retailers reported that March sales exceeded expectations, in part because of strong Easter-related activity. Once again, very strong results were reported from tourist destinations in Florida. Apparel sales were solid in most areas of the District. Merchants commented that they anticipate positive second-quarter sales relative to a year earlier, although several contacts noted concern that rising fuel prices may have dented discretionary consumer spending. District auto dealers had mixed results in March. Foreign-brand vehicles continued to perform well throughout the region, and some Florida contacts also noted positive sales of some domestic brands. However, overall purchases of domestic full-size trucks and SUVs were below year-ago levels. Most dealers stated that used car sales had improved from weak 2004 levels, and auction prices were higher.

Real Estate
Overall, March single-family home construction and sales remained near high year-ago levels. Moreover, both Realtors and builders in Florida continued to report record levels of activity. The demand for residential housing remained extremely strong in Florida, and shortages of homes for sale were noted by several contacts. In addition to single-family homes, condominium construction and sales were vigorous in Florida. Most contacts agreed that District residential construction will likely remain strong in the short-term, but some

slowing is anticipated in the second half of the year.

Improvements continued to be noted in commercial real estate markets. Retail development remained solid across the District, and industrial projects have been gaining pace as firms move forward with expansion plans. Office development was also improving, with plans for several new office towers.

Manufacturing
Reports from the factory sector continued to be positive. Some manufacturers increased production and lengthened workweeks in response to rising demand. Solid activity was noted by contacts in most industries, including carpet, building materials, machinery, and manufactured housing. In addition, contacts in the forest products and pulp and newsprint industries were optimistic about current and future activity.

Tourism and Business Travel
The tourism and hospitality sector remained strong in March and early April. In Florida, activity continued to be bolstered by foreign visitors. Bookings were characterized as "robust" at major central Florida theme parks, and passenger counts at cruise lines were high. The hospitality industry along Florida's panhandle continued to improve as hurricane-related repairs brought more rooms on line. Hotel occupancy remained strong along the Mississippi coast. Some convention hotels in Atlanta noted a recent upturn in business.

Financial
Financial activity in the District was brisk. Loan demand remained at high levels and some areas that experienced a slowdown in early 2005 noted an increase in activity in March. Contacts reported that consumer loan activity was expected to remain robust in the second quarter. Bankers also noted steady deposit growth, with several institutions expanding facilities and increasing hiring to meet demand. A modest improvement was also noted in commercial loan demand.

Employment and Prices
Labor markets improved modestly in March. Temporary employee hiring remained brisk, especially in the business services sector. Several contacts reported that they expected the pace of hiring to slow because of the rising cost of employee healthcare benefits and a lack of qualified applicants in some industries. For the trucking industry, in particular, the availability of qualified drivers remained limited.

Contacts again reported price increases in several sectors. For instance, building materials prices edged higher again, and petroleum-based goods such as plastics experienced notable price increases. Several contacts noted that they have been able to pass on higher energy and materials prices to their customers.

Agriculture
Rains severely slowed fieldwork for most District growers in March and early April. Also, Florida's citrus industry continued to monitor the impact of canker disease. So far, about 4,500 acres have been destroyed because of canker but up to 10,000 acres may be cleared before the disease is brought under control. The outlook for the District's poultry and cotton industry was reported to be positive because of strong export demand.

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Seventh District--Chicago

Summary

The Seventh District economy continued to expand at a moderate pace in late February and March, though activity was lagging in Michigan. Consumer spending was again generally subdued, while business spending continued to increase. Reports on construction and real estate activity were mixed by location and market segment. Manufacturing activity continued at solid levels in many industries, though weakness persisted in light vehicle production. Lending activity picked up slightly from the previous reporting period. There were more frequent reports of price increases throughout the supply chain, but overall cost and price pressures were modest. District farmers' crop plans for 2005 included an increase in corn acreage and a decrease in soybean acreage from last year.

Consumer Spending

Consumer spending was again generally subdued in late February and March. Retailers reported that sales in the Midwest were weaker than in other parts of the country, in part because cold weather reduced the demand for spring merchandise. Some reports suggested that sales of jewelry and apparel were stronger than other categories. New vehicle sales rose slightly in March. One dealer in the Chicago area credited the pick-up to their aggressive promotional efforts in response to manufacturer-to-dealer incentives. Inventories remained high, and dealers were selective in their ordering. Used vehicle sales were said to be gaining momentum. A large restaurant chain reported that sales in the Midwest were stronger than expected, with all market segments showing decent growth. Tourism was mixed by location, with contacts in Michigan reporting a sluggish pace of spending and others in Illinois reporting more positive conditions.

Business Spending

Business spending continued to increase. Reports on capital spending were generally favorable: one pharmaceutical company said they were sticking to their "healthy" investment plans, and a toolmaker was looking to add equipment. Reports on freight hauling were generally strong, though one analyst noted some slowdown in trucking during the first quarter. Labor market conditions continued to improve. A number of manufacturers said that they were hiring additional workers; the few reports of cutbacks were concentrated in the auto industry. Staffing firms reported modest growth in demand for temporary workers; one noted that the growth in their fees from permanent placements was stronger than their growth in billings for temporary workers.

Construction and Real Estate

Reports on construction and real estate activity were mixed by location and market segment. The residential market continued to be solid in most of the District, though reports suggested weakness in Michigan and Indiana. A builder in Indiana noted that permits and home construction were down from a year ago and expressed concern that some spec units were not selling; nonetheless, the contact remained optimistic for the rest of the year. Commercial real estate markets continued to be active in the Chicago area but were very slow in Michigan. Commercial vacancy rates were generally stable, with some improvement in suburban Chicago. Rents for commercial space were relatively steady.

Manufacturing

Manufacturing activity continued at solid levels in many industries, though weakness persisted in the light vehicle sector. Light vehicle production continued to slow and one analyst said that the industry was pondering deeper production cuts later in the year. The cuts already in place have strained the financial conditions of many suppliers. By contrast, strong demand has strained capacity in the heavy truck industry, with shortages of axles, tires, and roller bearings holding back production. One industry analyst thought that customers may be delaying ordering because backlogs were so high. Production and shipments of other heavy equipment rose further; orders eased slightly but remained at very strong levels, and many producers revised their forecasts for 2005 upward. A telecommunications equipment maker reported solid demand, as did contacts in the tooling industry. In the steel industry, one contact noted stable conditions: "The market is not robust, but it is not bad." Steel inventories had been worked down some but remained a little high.

Banking and Finance

On balance, lending activity picked up slightly from the previous reporting period. Business loan demand improved further, and one contact added that there was "good momentum" for commercial banking going forward. District bankers reported strong demand for financing equipment purchases and inventory building, and one in Chicago noted a pick-up in mergers among small- and medium-sized firms. Business credit quality was generally stable at good levels. Household loan demand was relatively steady during March. Demand for home-purchase mortgages was better than earlier in the year. A contact at a large bank attributed part of the increase to "fence sitters" jumping into the market before rates moved higher. By contrast, demand for mortgage refinancings was quite weak. Consumer credit quality was generally good. One banker noted an up-tick in delinquencies but did not view the increase as a significant concern. Contacts reported that spreads for most loan types had narrowed, and margins had shrunk due to competitive pressures.

Prices and Costs

There were more frequent reports of price increases throughout the supply chain, but overall cost and price pressures were moderate. A number of manufacturers noted higher prices for inputs such as resins and plastics, but steel prices appeared to stabilize somewhat. Manufacturers reported some success raising the prices for their products to cover higher costs. Furthermore, some heavy equipment makers and one construction materials producer thought they could raise prices enough to boost profits. At the retail level, reports of price increases were still sporadic, but they outnumbered the reports of price declines. Virtually all contacts noted higher energy costs. Fuel surcharges were imposed and accepted for many freight hauling activities. Wage gains remained modest, though health insurance costs continued to be a concern for many contacts.

Agriculture

Corn planting has begun and will shortly kick into high gear across the District. Moisture levels remained at least adequate for almost the entire District. According to the USDA's initial forecasts, corn acreage in District states was expected to increase a little over 1 percent from a year ago, and soybean acreage was expected to decline about 1 percent. Both of these forecasts were a little above the expectations for the nation. Corn and soybean prices rose during late February and early March before dropping again, but the price increases triggered sales from the large stocks in storage. The soybean price increases were large enough to cause some farmers to increase planting and forward-contract soybeans. A contact reported that most farmers are "crossing their fingers" about soybean rust, although some were increasing insurance coverage. Concerns about higher fuel and fertilizer costs continued. Farmers were also disappointed that higher gasoline prices had not lead to higher ethanol prices. With higher rents and interest rates, bankers expressed concern about cash flows, especially for large operations.

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Eighth District--St. Louis

Summary
Business activity in the Eighth District continued to expand since our previous survey. Reports in manufacturing were generally positive. Contacts in the services sector continued to report increased economic activity. Retail sales increased in February and March compared with the same months in 2004. Car sales over the same period were flat or slightly up. Home sales in the District continued to increase while commercial real estate activity showed additional signs of improvement. Total loans at a sample of small and mid-sized District banks increased from early December to mid-March.

Manufacturing and Other Business Activity
Manufacturing in the Eighth District has shown signs of improvement since our previous report, although several manufacturers expressed concern about rising energy prices. Several firms in the primary metal, motor vehicle, plastics, and electrical equipment industries reported plans to open new plants in the District, which will likely result in more than 1,900 new jobs. In addition, other firms in the machinery and automotive parts industries reported plans to expand operations and hire several hundred workers. Despite generally positive reports, several District manufacturers announced plant closings and workforce reductions. Firms in the food manufacturing, automotive parts, plastics, chemical, and apparel industries will close plants and lay off employees, displacing as many as 1,350 workers. Many of these contacts reported that they plan to relocate operations abroad because of increased foreign competition.

The District's service sector continues to expand in most areas. Firms in the freight transportation, airport operations, traveler accommodation, warehousing, gambling, marketing, telecommunications, water supply, waste management, recreation, and educational services industries reported new facility openings, renovations, and expansions. District retailers generally reported strong sales in February and March compared with the same months in 2004, although several contacts expressed concern about rising fuel prices. Strong-selling products included discount and grocery items, clothing, furniture, and hardware. District auto dealers reported that sales were flat or slightly up compared with last year. Import, tractor, and used car dealers reported positive sales growth, while most contacts reported a continued decline in the demand for sport utility vehicles.

Real Estate and Construction
February year-to-date home sales rose in most of the Eighth District. January and February home sales increased by 2.8 percent in St. Louis compared with the same months in 2004. Home sales were up 5.2 percent in Memphis and 5.6 percent in Louisville over the same period. Residential construction is, however, weakening in most of the District. January and February single-family housing permits declined in most areas. Compared with the same months last year, permits fell over 5 percent in St. Louis and Memphis and fell 10 percent in Louisville and 14 percent in southern Indiana. In contrast, February year-to-date permits increased in nearly every area of Arkansas and were up 88 percent in Tupelo, Mississippi.

Commercial real estate markets in the District are still strengthening. There is a limited amount of new office construction throughout the District and office vacancy rates seem to be slowly declining. In Louisville, the 2004 year-end office vacancy rate was 18.7 percent, down from 19.4 percent in 2003. The overall commercial vacancy rate for the Jefferson-Bullitt County market in Kentucky was 19.2 percent in the fourth quarter of 2004, down from 19.5 percent in the third quarter. The St. Louis and Memphis industrial markets are showing signs of improvement. Contacts in Memphis, Little Rock, and Louisville reported that commercial construction is very active. In northeast Mississippi, January and February square footage in commercial development increased 252 percent compared with the same months in 2004. Contacts in Little Rock reported that January and February were quiet in terms of industrial development.

Banking and Finance
Total loans outstanding at a sample of small and mid-sized District banks increased 1.5 percent from early December to mid-March. Real estate lending rose 2.1 percent. Consumer and industrial loans rose 3.1 percent. Meanwhile, loans to individuals declined 3.4 percent. Over this period, total deposits at these banks increased 1.6 percent.

Agriculture and Natural Resources
Most District farmers are still preparing for planting their spring crops. Farmers in the District states anticipate planting 2 percent more acres of corn, 28 percent more acres of sorghum, 10 percent more acres of cotton, and 2 percent more acres of rice this year than they planted in 2004. In contrast, District farmers anticipate planting 2 percent fewer acres of soybeans and 26 percent fewer acres of tobacco than last year. A few soybean farmers in Illinois and Indiana (the two largest soybean-producing states in the District) plan to decrease their acreage because of concerns about the incidence of Asian soybean rust.

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Ninth District--Minneapolis

The Ninth District economy displayed firm growth since the last report. Growth was evident in consumer spending, manufacturing, construction, real estate, energy, and mining. However, agriculture was down slightly and tourism was level. Employment grew moderately, and wage increases were generally modest. Significant price increases were noted in gasoline, home heating oil, and college tuition.

Consumer Spending and Tourism
Overall retail activity increased. A major Minneapolis-based retailer reported same-store sales up 8 percent in March from last year. Sales at a North Dakota mall during the Easter weekend were up 12 percent compared with last year's Easter sales, according to the mall manager. March sales at a Montana mall were about 5 percent ahead of last year, according to the mall manager, who expressed concern about recent higher gas prices. However, gas prices haven't had a noticeable effect on traffic so far. Recent sales and traffic were up slightly at a Minneapolis-St. Paul area mall compared with a year ago.

A representative of a North Dakota auto dealers association described recent sales activity as good overall, but "spotty." For example, a dealer in the northeastern part of the state described last month's sales as the best March ever, while dealers in the western part of the state noted volatile sales. A publication by the Minnesota Automobile Dealers Association reported that new retail light vehicle registrations will likely decline 4 percent in 2005 compared with 2004, but nevertheless finish at historically strong levels.

Late winter tourism activity improved in areas that received more snow. March winter tourism activity in the Duluth, Minn., area was up from last year due to good snow conditions, and convention bookings for the rest of the year look solid, according to an official. In the Upper Peninsula of Michigan, winter tourism was up about 8 percent from a year ago, while winter tourism activity was about level with a year ago in northwestern Wisconsin, according to officials. However, snowmobiling activity was generally down in South Dakota from last year due to a lack of snow.

Manufacturing
Manufacturing activity expanded. A March survey of purchasing managers by Creighton University (Omaha, Neb.) indicated increased manufacturing activity in the Dakotas and Minnesota. A steel fabricator in Minnesota noted that business is very strong. In northern Wisconsin, a lumber mill recently completed a $1.5 million equipment upgrade, and business is "moving pretty well." However, the plant manager is concerned about the lack of long-term orders. A plastic parts manufacturer in the Upper Peninsula reported "very brisk" business and tremendous gains in productivity through recent investments in new equipment and automation. However, input costs have been rising fast. Some equipment contacts reported shortages of large tires and certain steel inputs.

Construction and Real Estate
Construction in the Ninth District increased slightly. A 150-unit development was announced in Minneapolis, continuing the condominium construction boom there. Housing units authorized in district states were up 0.3 percent for the three-month period ended February. However, for the same period, contract awards for large construction projects in Minnesota and the Dakotas were down 9 percent compared with a year earlier. In North Dakota, a company announced plans to build a $65 million ethanol plant, with construction to begin this fall. Construction is also set to begin on a $30 million power plant in Butte, Mont.

Real estate activity was brisk. A Fargo, N.D., area Realtor called the market there "hot as a pistol" and said activity was up over last year's strong sales. A study of the Marquette, Mich., area real estate market showed increasing sales and prices and a decrease in selling times, owing to improving regional employment. The office vacancy rate in downtown St. Paul showed signs of improvement, dropping to 24.2 percent from recent highs over 25 percent, with especially strong gains for Class A space.

Energy and Mining
Activity in the energy and mining sectors increased. A large-scale wind energy project is planned for central Montana. Oil and gas exploration and production were about level from late February through late March. Iron ore production continues at capacity. A Montana palladium/platinum mine expects stable production in 2005, and a recently reopened copper mine is ramping up production. The operating mines are performing "exceptionally well" due to strong metal prices, commented a Montana mining official.

Agriculture
Economic activity in the agricultural sector was down slightly. District farmers expect to slightly decrease the acres planted with soybeans and corn from last year and slightly increase wheat plantings. The drought worsened in the western part of the district, as

Montana suffered the sixth driest winter on record. Although dry conditions exist, the U.S. Department of Agriculture reports that 66 percent and 42 percent of the winter wheat crop in South Dakota and Montana, respectively, were rated in good to excellent condition, while only 6 percent and 13 percent are in poor or very poor condition.

Employment, Wages, and Prices
Employment increased slightly. Nonfarm employment in district states was up 1.3 percent in February compared with a year ago; employment in Montana increased almost 2 percent. New retail, hotel, and business prospects in the Bismarck, N.D., area will require about 1,500 or more new employees over the next year and a half. In Montana, a cable television and high-speed Internet company recently opened an operations center with 200 employees, which could increase to 300 employees within a few years. In Minnesota, a printing company recently announced expansion plans, and a fastener distributor is planning to establish a new call center. Each project will add about 30 jobs. According to a recent St. Cloud (Minn.) Area Quarterly Business Report survey, 47 percent of respondents expect to increase employment during the next six months, and 10 percent expect to decrease staff. A survey of Minneapolis-St. Paul businesses by a temporary staffing agency found 37 percent of respondents expect to increase employment during the second quarter of 2005, while 7 percent plan to decrease staff. In last year's survey, 32 percent expected to increase employment, while 1 percent planned to make cuts.

However, some layoffs were announced. A major Minnesota-based airline recently announced plans to reduce its fleet and eventually cut up to 900 mechanic jobs. A Minnesota hair care products manufacturer plans to close, affecting 400 to 500 jobs. A plant that produced graphics for automobiles will close in Minnesota by the end of the year, affecting 200 jobs.

Increases in wages were generally modest. State employees in South Dakota will receive a 2.25 percent raise next year, according to recent legislative action. However, a Montana bank director noted significant wage increases for skilled workers in the high tech sector.

Some significant price increases were noted. Minnesota gasoline prices in the beginning of April were up 41 cents compared with last year. A Minnesota servicing company recently reported fuel surcharge increases on deliveries. Home heating oil prices were up by almost 50 percent from a year ago. Tuition for next fall will increase 8 percent in the Montana university system and 5 percent at South Dakota public universities. Steel mill product prices have recently leveled, but were still almost 40 percent above year-ago levels. While the American Farm Bureau reported that overall increases in food prices during the first quarter from fourth quarter 2004 were modest, flour, bacon, apple, and egg prices posted notable increases.

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Tenth District--Kansas City

The Tenth District economy expanded solidly in March and early April. Retail sales and tourism increased, factory activity rose briskly, and the energy sector continued to strengthen. In addition, labor markets firmed slightly, and residential real estate activity increased. Wage increases remained moderate at most firms, but price pressures persisted at the wholesale level and showed scattered signs of emerging at the retail level.

Consumer Spending

Consumer spending in the district rose solidly in March and early April. Most retailers and mall managers reported sizable increases in sales from a year ago. Product categories characterized as especially strong included apparel, appliances, and jewelry. On the other hand, sales of garden and patio items and shoes were said to be weaker than normal. Some stores increased inventories due to the solid increase in sales, but most stores held inventories steady and plan few changes in the months ahead. Virtually all store managers anticipated strong sales through early summer, although some were worried that higher gasoline prices could cut into sales. Motor vehicle sales improved somewhat from the previous survey but generally remained slightly weaker than a year ago. A number of dealers continued to note some weakening in truck and SUV sales, which they attributed to higher gasoline prices. Nevertheless, most dealers were optimistic that overall vehicle sales will continue to post modest improvements. Travel and tourism activity continued to increase in March and early April. Airport traffic was up from year-ago levels across the district, and Rocky Mountain resorts reported strong increases in activity from last year.

Manufacturing

District manufacturing activity expanded strongly in March and early April. Overall, plant managers reported sizable increases in production, shipments, and orders compared with the previous survey, and many firms continued to add employees. In addition, manufacturers generally reported solid growth in capital investment. On the negative side, a few large firms in the region announced sizable layoffs since the previous survey. Heading forward, plant managers remain optimistic about future activity, though slightly less so than in the recent past. Most plant managers noted few difficulties obtaining materials, though some reported delays in shipments of steel and aluminum.

Real Estate and Construction

Residential real estate activity increased in March and early April, while commercial real estate activity remained flat. Most builders reported solid growth in single-family housing starts since the previous survey. The increase was in contrast to the softening in homebuilding reported in recent surveys. Builders generally expect steady construction activity in the months ahead. Real estate agents reported slight improvements in home sales from both the previous survey and a year ago. Activity in some cities was reported to have been boosted by sales to out-of-state investors. Most real estate agents anticipate slight increases in home sales in coming months. Mortgage lenders reported another small rise in mortgage demand, despite further decreases in refinancing activity. Virtually all mortgage lenders remain optimistic about future demand for home purchase loans. Commercial real estate activity in the district was generally unchanged from the previous survey and still relatively weak overall. As in the previous survey, however, many commercial real estate agents anticipate some improvement in vacancy and absorption rates in the months ahead.

Banking

Bankers reported that loans increased more than deposits since the last meeting, boosting loan-deposit ratios somewhat. Demand increased for commercial and industrial loans and commercial real estate loans and was unchanged for other categories. On the deposit side, all types of accounts edged up. Almost all respondents increased their prime lending rates and consumer lending rates since the last survey. A few banks eased their lending standards, citing competition from other banks.

Energy
District energy activity continued to rise in March and early April. The count of active oil and gas drilling rigs in the region increased moderately from the previous survey and was well above year-ago levels. A number of energy firms said drilling activity was slightly less than desired, due to persistent shortages of labor and equipment. One company reported that waiting time for drilling rigs had increased to a minimum of nine months. Most contacts expect continued modest expansion of drilling in the months ahead, reflecting increased confidence that oil and gas prices will remain high.

Agriculture
Agricultural conditions in the district were generally favorable in March and early April. Most crop producers were upbeat about the status of the winter wheat crop and reported good to excellent field conditions for spring-planted crops. In the northern and western areas of the district, however, drought remained a pressing issue for ranchers, who reported that pasture conditions were somewhat unfavorable heading into spring. Many farmers also noted some concern about rising fuel costs. Farmland values in the district continued to appreciate rapidly.

Labor Markets, Wages, and Prices
Wage pressures remained moderate despite firmer labor markets, but many manufacturers continued to raise output prices and more stores than in recent surveys raised retail prices. The number of firms reporting worker shortages continued to increase. Workers reported to be in especially short supply included truck drivers, computer technicians, and both entry-level and experienced workers in the retail, manufacturing, and energy sectors. Despite the tightening in labor markets, the number of firms reporting wage increases remained similar to recent surveys. Also, due to sizable job cuts at a few large companies, layoff announcements in the district exceeded hiring announcements for the first time in over a year. Most retailers continued to report flat selling prices. However, a larger number of stores and restaurants than in recent surveys said they had raised prices due to increased costs. Retailers generally expect little change in prices in the months ahead, though several home improvement and furniture stores anticipate raising prices further. Some builders noted increased prices for materials, and nearly all manufacturers said input prices were rising. As in previous surveys, a sizable share of manufacturers raised output prices and plan to continue doing so in the months ahead. A few firms, however, have been less successful in passing on cost increases than they anticipated and have had to withdraw previous price increases.

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Eleventh District--Dallas

Eleventh District economic activity expanded moderately in March and early April. The manufacturing sector continued to rebound, while activity in financial and business services continued to expand at the same pace reported in the last Beige Book. Retailers said they were disappointed with recent sales growth. Residential construction continued to cool from last year's strong pace, amid signs that commercial real estate markets were slowly improving. The energy industry strengthened further, and contacts said exploration activity was expanding on the belief that energy prices would remain high. Agricultural conditions remained generally positive. While activity was strong in some industries, in many sectors contacts reported slightly less optimism about the strength of activity for the rest of the year, largely because demand has not been picking up as quickly as they had hoped.

Prices

Energy prices were up despite rising U.S. inventories of crude oil and refined product. Crude oil prices rose from $47 per barrel to a high of $57 per barrel since the last Beige Book, while domestic crude inventories built rapidly toward five-year high levels. Prices for both distillates and gasoline rose with the price of crude oil. Sales of gasoline continued to be very strong despite prices that increased from $1.95 to $2.19 per gallon at the pump between early February and late March. Gasoline inventories are far above five-year highs, which contacts say is unusually large. Distillate inventories, including heating oil, were below normal for most of the period, but built back toward the five-year average in early April. Natural gas prices were up from near $6 per million Btu in early February to near $7.25 in early April. Natural gas inventories are now 22 percent higher than the five-year average with the heating season rapidly coming to an end.

Most manufacturing and service sector contacts expressed concern about rising cost pressure for utilities, transportation and petroleum-based products, such as Styrofoam and plastic bags. A weaker dollar contributed to increases in the cost of some imported raw materials. The ability of firms to push through these cost increases remains mixed. Some companies have reduced energy consumption to mitigate cost increases, and others have increased selling prices and/or reduced profits. Uncertainty about energy prices has added caution to the outlook for activity.

Labor Market

The labor market continued to slowly improve, and there continued to be reports of shortages for a few types of workers. Still, most industries said there was little or no wage pressure. The costs of benefits--particularly for health care--remain a concern for most firms, but contacts reported that the rate of increase had slowed.

There were still reports that the accounting and energy industries were having difficulty finding qualified workers, and competition between banks for quality workers is bidding up salaries and benefits. A few firms say they are considering capacity expansion that would require adding workers, but are waiting for demand to strengthen before making these investments.

Manufacturing

Manufacturing activity continued to pick up--with strong demand for food products, some construction-related products and activity to support the energy industry. Sales of fabricated metals increased over the past month, partly because of an increase in the availability of steel. Producers of cement, clay, brick, tile and glass continued to report robust demand for their products.

Demand for paper products softened slightly in recent weeks. Contacts reported reduced demand for corrugated boxes for durable goods. Demand for primary metals and lumber was unchanged. Lumber contacts reported that inventories are high. Apparel manufacturers said demand was unchanged over the past few weeks, which is lower than a year ago. Stiff global competition continues to force producers out of the apparel business. One contact expects demand to drop by about 15 percent during the summer and plans to lay off some workers at that time.

There was little change in the growth of orders for most high-tech products. A rise in orders for communications equipment, industrial switches and medical instruments stimulated a slight pickup in demand for semiconductors. Sales of consumer electronics and personal computers were reported as unchanged.

Demand for basic petrochemicals continued to be very strong. Petrochemical prices are up, and producers say that margins are very strong. New capacity is not expected to provide price relief until mid-2006 at the earliest. Refiners reported that strong product demand and limited capacity allowed increased profits on both light, sweet and heavy, sour crude, despite sizable increases in crude oil prices.

Services
Demand for accounting services was strong, driven mostly by firms complying with tax and regulatory laws; but there was some pickup in transactions services. Law firms reported no change in the demand for their services. Temporary staffing firms said demand was mixed over the past six weeks. Activity was still sluggish in the major metropolitan areas but picked up outside the metropolitan areas.

Demand for trucking has leveled off but remained above last year's levels. Railroads and airlines reported strong demand. Airfares were up in some markets, but contacts said fare increases were too low to cover growing fuel and other costs, such as escalating landing fees. Respondents say continued financing for bankrupt carriers is hindering a return to profitability.

Retail Sales
Most retailers reported disappointing sales growth, which they attributed to a combination of wet weather, an early Easter and higher gasoline prices. Sales of home goods were particularly slow. Still, retailers said selling prices were higher than a year ago. Contacts say this was largely the result of higher input costs but some also reported higher profit margins.

Auto sales were weaker than a year ago, and dealers said inventories are slightly too high. Sales have been softest for domestic brands, SUVs and trucks. Most manufacturers say they have taken incentives off of the market because they can not afford to continue them.

Construction and Real Estate
Demand for new homes remained at or just below last year's record levels, while sales of existing homes were still robust. Builders say competition is limiting pricing power, except in Austin where demand is strong. Rising building costs continued to squeeze builders' margins.

Overbuilding in apartment markets remains a concern, according to contacts, particularly in Dallas and San Antonio, but development in Austin is in line with demand. Leasing activity in office markets continued to gain steam, mostly due to expansion by smaller tenants. In Dallas, pockets of strength are spurring plans for new office construction.

Financial Services
Overall lending activity was unchanged. There continues to be a lot of money available for investing in commercial real estate, according to lenders. Competition for good investments remained stiff, leading lenders to be creative with contract terms to attract borrowers. Otherwise, contacts say that there have not been significant changes in lending standards and delinquencies remained unchanged.

Energy
Energy activity continued to strengthen. Drilling plans have moved up faster than predicted earlier in the year. The U.S. rig count is at the highest point since 1986. Pricing power continues to strengthen for oil services, and many firms have begun to consider expanding capacity. Many say that they won't expand, however, until they are actively turning down work.

Contacts say there are more signs that the industry believes higher oil prices will last because price movements are being driven by the market bumping up against capacity constraints rather than by an OPEC production cut. As a result, producers are considering oil and natural gas from coal-bed methane, tight gas, tar sands and gas shales. Service companies are interested in creating new products that support this unconventional resource development.

Agriculture
Producers reported good demand for livestock and favorable prices. Range and pasture conditions improved. Prices remained weak for most District agricultural commodities, but there were reports of some improvement in the price of wheat, corn and soybeans. Land preparation and planting was active in most parts of the District.

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Twelfth District--San Francisco

Summary
The Twelfth District economy expanded at a solid pace in March and early April. Although contacts noted a slight increase in inflation for final goods and services, due in part to higher energy prices, the pace of inflation reportedly remained modest. Compensation pressures were up slightly, with rising health-care costs and some pickup in demand for skilled workers. District retailers and service providers noted solid demand in recent weeks, and manufacturing activity continued to expand throughout the District. Demand for District agricultural and resource-related products reportedly was strong. Activity in residential real estate markets remained vibrant, and commercial real estate markets improved further. District banks reported strong loan demand and high overall credit quality.

Prices, Wages, and Labor Markets
Contacts reported that price inflation remained modest, although it was up slightly compared to the previous survey period. The overall pickup in inflation was attributed, in part, to high and rising oil prices, which pushed up costs for a wide range of products including transportation services and energy-intensive goods, such as fertilizers, plastics, and many construction materials. Many producers have passed these cost increases on to final goods prices. For example, a contact in the roofing business stated that rapidly rising prices for oil-based roofing materials have led him to raise his prices for roofing services. Those District businesses that have not increased final prices cited vigorous competition among sellers and continued gains in production efficiency as the restraining factors.

Respondents reported some tightening in District labor markets in recent weeks, especially for high-skilled workers, though most indicated they were able to fill job openings. The increased demand for skilled workers, along with continued increases in health benefit costs for all workers, led to a slight pickup in labor compensation.

Retail Trade and Services
District retailers indicated generally solid sales in recent weeks. Auto sales continued to be strong overall, although demand reportedly softened somewhat for domestic makes. Contacts reported a notable shift in demand toward more fuel-efficient brands. Demand for SUVs and trucks softened in recent weeks, negatively affecting many domestic manufacturers.

District service providers continued to report strong growth in March and early April. Demand was especially robust for health-care, transportation, and food services. Activity in the District's travel and tourism sector remained vigorous, pushing up hotel occupancy and average daily room rates in most areas. For instance, continued strong year-over-year growth in the number of domestic and international visitors to Hawaii fueled robust conditions in the tourism sector there.

Manufacturing
Demand for manufactured goods picked up further throughout the District during the survey period. Makers of machine tools reported strong growth in new orders and solid workloads. For high-tech producers, semiconductor orders and sales reportedly were solid and capacity utilization was stable at relatively high levels. Robust construction activity fueled rising demand for wallboard, insulation, and other building materials. As in the previous survey period, the main exception to solid conditions in the manufacturing sector was in telecommunications, as communications equipment makers continued to struggle with weak orders and substantial excess capacity. Contacts throughout the manufacturing sector stated that increasing costs of materials and energy inputs have prompted them to keep production as close as possible to demand.

Agriculture and Resource-related Industries
District agricultural contacts reported strong growth in orders and sales of agricultural goods. Contacts noted rising input costs, particularly for fuel. In general, businesses passed these increases on to final goods prices. In the energy sector, producers of oil and natural gas reported strong demand and rising drilling costs.

Real Estate and Construction
District residential real estate markets remained robust in March and early April, and conditions improved slightly in commercial real estate markets. The pace of home sales, price appreciation, and home construction remained rapid in most areas in the District. Demand for District commercial real estate strengthened moderately in recent weeks, with office vacancy rates improving in many markets. Builders indicated that strong consumer demand for both residential and commercial real estate allowed them to pass on the cost increases of building materials such as concrete, wallboard, lumber, and steel products. Continued solid demand for new homes plus increased demand for commercial real estate kept overall construction activity at high levels; contacts noted construction backlogs in several areas.

Financial Institutions
District banking contacts indicated a general continuation of trends from the previous survey period. Commercial and industrial lending continued to improve. Demand for construction, commercial real estate, and residential loans remained at high levels overall, although home mortgage demand continued to slow somewhat. District banks and financial institutions reported that loan quality remained high.

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