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Summary of Commentary on ______________________

Current Economic Conditions

By Federal Reserve District

April 2012

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

APRIL 2012

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Summary[*]

Reports from the twelve Federal Reserve Districts indicated that the economy continued to expand at a modest to moderate pace from mid-February through late March. Activity in the Boston, Atlanta, Chicago, Dallas, and San Francisco Districts grew at a moderate pace, while Cleveland and St. Louis cited modest growth. New York reported that economic growth picked up somewhat. Philadelphia and Richmond cited improving business conditions. The economy in Minneapolis grew at a solid pace and Kansas City's economy expanded at a faster pace.

Manufacturing continued to expand in most Districts, with gains noted in automotive and high-technology industries. Manufacturers in many Districts expressed optimism about near-term growth prospects, but they are somewhat concerned about rising petroleum prices. Demand for professional business services showed modest to strong growth and freight volume was mainly higher. Reports on retail spending were positive, with the unusually warm weather being credited for boosting sales in several Districts. While the near-term outlook for household spending was encouraging, contacts in several Districts expressed concerns that rising gas prices could limit discretionary spending in the months to come. New-vehicle sales were reported as strong or strengthening across much of the United States. Tourism increased in most reporting Districts. Residential real estate showed some improvement, with many contacts citing expansion in the construction of multi-family housing. Activity in nonresidential real estate increased or held steady in most Districts. Agricultural conditions were generally favorable. Mining activity expanded and oil extraction rose, while natural gas drilling slowed. Banking conditions were largely stable, with some improvement seen in loan demand. Several Districts reported increased credit quality.

Hiring was steady or showed a modest increase across many Districts. Difficulty finding qualified workers, especially for high-skilled positions, was frequently reported. Upward pressure on

[*] Prepared by the Federal Reserve Bank of Cleveland based on information collected on or before April 2, 2012. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

wages was constrained. Overall price inflation was modest. However, contacts in many Districts commented on rising transportation costs due to higher fuel prices.

Manufacturing

Manufacturing continued to expand in most Districts, although respondents in the Boston and St. Louis Districts reported that manufacturing was mixed and Chicago reported that growth in manufacturing production leveled off after a strong start to the year. Contacts in automotive industries reported gains in Cleveland, Atlanta, and Chicago. The Kansas City, Dallas and San Francisco Districts reported increased sales for high-technology manufacturers, with Dallas noting key demand drivers continue to be mobile applications, cloud computing, and automobiles. The Philadelphia and Dallas Districts indicated improvement in demand for manufacturing with ties to residential housing and construction. Cleveland steel producers and service centers reported that volume was trending slightly higher, while Chicago steel producers said that capacity utilization was steady. For refiners in San Francisco, capacity utilization rates continued to hold largely stable, as weak domestic gasoline demand was offset by strong foreign demand for distillate products. In Dallas, Gulf Coast refiners noted steady margins overall.

Manufacturers in Boston, Cleveland, and Chicago are expanding payrolls but finding it difficult to find highly-skilled workers. Comments from the Cleveland, Atlanta, Chicago, and Kansas City Districts indicated a rise in capital spending. Manufacturers in over half the Districts commented on increasing input costs, focusing, in particular, on rising petroleum prices. Contacts in Boston, Philadelphia, Chicago, Kansas City, and San Francisco remained optimistic that activity will increase in the near term. However, several respondents in Cleveland and Dallas noted that their outlooks have become more cautious. Manufacturers in Boston and Cleveland expressed concern about the European economy. Expectations were mixed in St. Louis.

Nonfinancial Services

Demand for professional business services was characterized as modest to strong in the Boston, Philadelphia, Richmond, Kansas City, and Dallas Districts. St. Louis, Minneapolis, and San Francisco reported that demand was mixed. Boston and Richmond cited rising demand for advertising, marketing, and consulting services, while accounting services saw a modest pickup in Minneapolis and Dallas. Growth in technology-related services to the energy sector was noted in the Minneapolis and Kansas City Districts. St. Louis and San Francisco reported that activity in the healthcare sector was flat to down. Both Richmond and San Francisco noted increased sales for restaurants and food-related service providers. Freight transportation services were higher in the Cleveland, Richmond, and Kansas City Districts. Reports from Atlanta and Dallas were mixed due to declining air cargo volumes and railroad shipments. St. Louis reported that plans have been announced to close certain freight transport and distribution facilities. Contacts in Cleveland, Richmond, and Kansas City noted a shortage of qualified truck drivers.

Consumer Spending and Tourism

Retail spending continued to improve in almost all Districts. Contacts in the Boston, New York, and St. Louis Districts characterized retail activity as strong. Reports from Chicago and Richmond indicated a significant strengthening in retail spending. Sales expanded at a modest or moderate pace in Philadelphia, Minneapolis, Kansas City, and Dallas. Unseasonably warm weather boosted sales in the Boston, Philadelphia, Cleveland, Richmond, and Chicago Districts. Grocers in Cleveland and San Francisco reported sales as unchanged. Apparel sales were strong in Boston and New York. Purchases at home improvement stores were up in Richmond and Chicago. Reports from Boston, Atlanta, St. Louis, and Kansas City indicate a positive near-term outlook for retail spending; however, contacts in Philadelphia, Cleveland, Atlanta, Chicago, and Kansas City expressed concerns that rising gas prices could limit discretionary spending in the months to come.

Automobile sales were reported as stronger or strengthening during late February and early March in most Districts. Mild winter weather boosted sales in Cleveland but depressed motor vehicle service spending in New York and Minneapolis. Rising gas prices lead to increased purchases of fuel-efficient vehicles in Kansas City, Dallas, and San Francisco. Contacts in Philadelphia and Kansas City expect continued sales strength. Reports from Cleveland showed a mixed outlook, with some respondents expecting solid sales and others seeing the current pace of sales as unsustainable. Used-vehicle sales were reported as strong or robust in Cleveland and San Francisco.

Tourism was characterized as strong by respondents in the Boston, New York, Richmond, and Atlanta Districts. Minneapolis indicated a slowdown in activity due to a general lack of snow this winter. Conversely, warm weather boosted tourism in Richmond. Bookings were strong in New York, and occupancy rates improved in the Boston, New York, Atlanta, and San Francisco Districts. In Boston and Kansas City, business travel continues to be the main driver of tourism activity. Contacts in Boston and Atlanta expressed concern over high fuel prices as a possible drag on leisure spending.

Real Estate and Construction

Residential real estate activity improved in most Districts, though Cleveland and San Francisco noted that activity remained lackluster or at low levels. The St. Louis and Minneapolis Districts reported increases in building permits. The construction of multi-family housing units, including apartments and senior housing, expanded in many Districts. Home prices continued to decline in Boston, New York, and Minneapolis, but were largely flat in San Francisco. Contacts in Boston, Philadelphia, and Kansas City indicated that mild weather had boosted real estate activity.

Non-residential construction activity improved in the Philadelphia, Cleveland, Richmond, Atlanta, Chicago, and St. Louis Districts, though many of these contacts characterized the improvement as slow. Boston, New York, and San Francisco characterized non-residential real estate activity as unchanged or steady. The energy and high-tech sectors were driving much of the demand in the Dallas District. San Francisco noted a rise in the demand for office space from the technology sector. Cleveland and Chicago saw a boost in healthcare-related construction. Projects related to the education sector are showing growth in Boston, Cleveland, Philadelphia, and Richmond. The outlook of builders is described as positive or slowly improving in the Philadelphia, Cleveland, Atlanta, and Kansas City Districts, and as cautiously optimistic in Boston.

Banking and Finance

For most Districts reporting on financial services, banking conditions remained stable, with modest improvements in demand for lending. Loan demand was reported as improved in New York, Philadelphia, Cleveland, Richmond, Chicago, Kansas City, Dallas, and San Francisco, while lending activity was unchanged in St Louis. The Dallas District reported improved sentiment by national and regional banks due to improved middle-market and large corporate lending. Contacts in Cleveland, Richmond, and San Francisco reported that increased competition among lenders has been driving more aggressive loan pricing. In general, the demand for commercial and industrial loans remained steady, while several Districts reported an increase in commercial real estate lending activity. The Philadelphia and Cleveland Districts reported increased lending for multifamily housing and health care, and contacts in Richmond cited increased lending to small business to finance inventory and capital expenditures. Consumer lending has remained stable or risen modestly across a few Districts. The Cleveland and Richmond Districts reported increased home equity and auto lending, while bankers in Chicago noted improved credit availability for auto loans and credit cards. Several Districts reported that credit standards remain stable, but Richmond bankers reported that they were offering easier terms to attract new commercial borrowers. Several Districts reported increased credit quality, as delinquencies have continued to decline and few problem loans have been reported.

Agriculture and Natural Resources

Recent rain and snowfall has helped alleviate dry agricultural conditions from earlier in the year. Nonetheless, the Atlanta, Minneapolis, Kansas City, and Dallas Districts have all reported certain areas where drought conditions continue to persist. Due to unseasonably warm weather, contacts in several Districts reported that the planting of some crops is beginning earlier than normal, including corn in Chicago and wheat in Minneapolis. San Francisco commented that there has been an increase in certain input costs, such as fertilizer, while Chicago reported tight supplies of some agricultural chemicals and corn seed. Atlanta and Chicago reported an increase in the prices paid to farmers for soybeans; Chicago noted that the increase was due to lower-than-expected harvests in South America. Livestock prices rose in the Chicago, Minneapolis, and Kansas City Districts, while orders for livestock were robust in San Francisco. Farmland values in Kansas City continue to rise and are at record highs.

Activity in natural resources remained strong. The Kansas City, Dallas, and San Francisco Districts reported a shift from natural gas to oil exploration and production due to low natural gas prices and growing demand for oil. In the Cleveland District, leasing activity in the Utica shale is expanding. Cleveland and St. Louis noted that the production of coal has slowed over the past few months. The mining sector is expanding in San Francisco due to high prices for a variety of precious metals, and iron ore mines in the Minneapolis District continued to operate near capacity. Contacts in Kansas City reported a shortage of engineers and experienced technical support for oil and gas drilling.

Employment, Wages, and Prices

Hiring was steady or showed a modest increase in the Boston, New York, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Dallas, and San Francisco Districts. Industries reporting some employment growth included manufacturing, freight transport, professional business services, and information technology. A preference for part-time and temporary workers was seen in the Richmond and Atlanta Districts. Atlanta noted that temporary workers were being utilized in order to contain costs and retain flexibility, while some employers in Richmond prefer temporary workers due to uncertainty about future demand. Some employers in the Boston, Cleveland, Atlanta, Chicago, Kansas City, and Dallas Districts reported having difficulty finding qualified workers, especially for certain high-skilled positions. Contacts in Philadelphia and Cleveland noted that new federal regulations are exacerbating a truck-driver shortage. New York commented that employers are planning to step up hiring activity in the months ahead. Boston, Richmond, and Atlanta said that employers in their Districts are cautious and need to see more robust growth before they expand their permanent payrolls further.

Wage pressures were characterized as contained or modest among reporting Districts. Contacts in Chicago, Dallas, and San Francisco noted some upward pressure on wages for skilled jobs, especially in manufacturing and information technology. In the Minneapolis District, strong oil-drilling and production activity continued to bid up pay. Transportation contacts in Cleveland noted some wage pressure due to a tightening of the driver pool. And medical benefits continue to put pressure on labor costs in Philadelphia.

Overall price inflation was modest in most Districts. However, contacts in the Cleveland, Richmond, Atlanta, Chicago, Kansas City, and Dallas Districts cited rising transportation costs due to higher fuel prices. Minneapolis and Dallas noted that airlines have raised their fares to offset higher fuel costs. Richmond reported that rising fuel costs were a serious problem for both land and ocean shippers, while intermodal transportation firms in Dallas said that they had increased prices in response to higher fuel costs. In Atlanta, higher transportation costs were passed through to consumers without much difficulty. In contrast, contacts in Cleveland, Chicago, and San Francisco said it was difficult to pass through higher costs to consumers. Input costs for manufacturers in Boston, Cleveland, and Kansas City rose somewhat, but with little pass-through. Price pressures have eased somewhat for manufacturing firms in Philadelphia. Higher prices for construction materials narrowed profit margins for contractors in Kansas City.

FIRST DISTRICT – BOSTON

Economic activity continues to expand at a moderate pace in the First District. Most contacted retailers, manufacturers, and consulting and advertising firms report higher revenues in recent months than a year earlier. Commercial real estate markets are mostly unchanged, while residential contacts across the region cite rising sales and declining prices. Except for a consulting firm unable to meet very strong demand growth without aggressive hiring, responding firms are hiring modestly or not at all; a few mentioned small layoffs. Retailers express concern about what rising energy costs may do to consumers' willingness to spend, while manufacturing contacts acknowledge the increasing costs, but say they are not a problem.

Retail and Tourism

Most First District retail contacts characterize year-to-date 2012 performance as strong, attributing this strength to mild winter weather and improving consumer sentiment. For February, year-over-year comparable-store sales increases ranged from low to high single digits, with the exception of one retailer citing a 23 percent rise. Furniture continues to sell well in the First District, as does apparel and other household items. Paper-based products are expected to see 3 percent to 4 percent price increases. While respondents are optimistic that performance will continue to be good, they remain cautious, noting that gasoline price increases might damp consumer sentiment.

The travel and tourism sector in the First District continues to expect a strong 2012, based on 5.6 percent annual growth in 2011, a strong start to 2012, and analyst forecasts predicting high single-digit to low double-digit increases over 2011. In January and February, hotel revenues were up nearly 10 percent, reflecting improved occupancy rates. Higher hotel occupancy has positive spillover effects for restaurants, retail, and entertainment venues. Business travel is driving this increase, as leisure travel is still subject to some consumer caution. Echoing the retail contacts, tourism contacts say higher gas prices could retard growth in leisure travel, but aggressive price discounting might provide a counterweight.

Manufacturing and Related Services

None of the 10 First District manufacturing firms contacted this round saw year-over-year sales declines in recent months, but performance varied. A semiconductor machinery manufacturer which generates most of its sales in Asia reports flat sales in the first two months of 2012, an improvement over declining sales in the fourth quarter of 2011. By contrast, an information technology equipment provider cites 18 percent sales growth in 2011 and continued strong growth in the first quarter of 2012. Geography matters, as firms with large operations in Europe saw slower growth and some outright overseas declines whereas firms more focused on the U.S. and Asia experienced better results. A contact in the information technology sector argues that the end of 2011 was strong because customers held back on spending during the weak spring and summer period but then made sure to spend that money before the year ended.

All of our contacts report that input costs and, in particular, energy costs are up. However, none says rising costs are a problem and all in this round say energy has little noticeable effect on their costs or revenues. In general, respondents indicate they are hiring to keep up with demand. Two firms undertook relatively small layoffs; one did so because of weaker sales in the fourth quarter of 2012 and the other is offsetting layoffs at one New England plant with increases elsewhere in the region. Firms continue to report difficulty finding qualified workers, especially in skilled manufacturing trades and engineering. One contact, an electrical equipment manufacturer, is trying to re-orient recruiting to hire young engineers, for example, and train them in-house, rather than continuing to search for workers who already have experience with the relevant technology.

None of the contacted firms has revised its outlook since our last conversations earlier this year or in the closing months of 2011. Most appear to expect U.S. economic growth around 2 percent in 2012 and company sales growth in the low single digits. Contacts remain concerned about the European economy and about political “gridlock” here. A few contacts also expressed slight concern about prospects for growth in China.

Selected Business Services

Consulting and advertising contacts in the First District report increasing revenues in the first quarter of 2012 and most say that the pace of growth, while not rapid, is sustainable. Despite the fact that recent growth is generally slower than at the end of 2011, contacts are relatively upbeat, partly because the faster growth of late 2011 represented a recovery from a very weak third quarter, in which several contacts experienced declining revenues and laid off workers. Revenue results, while good for marketing and advertising firms, are stronger for consulting firms, especially economic consulting. A firm that focuses on marketing and promotional materials saw year-over-year growth of about 10 percent while another that focuses on advertising cites stable revenues recently after rapid growth in the latter half of 2011. Strategy and business consulting contacts report growth around 5 percent, as clients who had previously been sitting on large stockpiles of cash are beginning to spend them to address pent-up need for consulting services cut during the recession. Clients have reportedly begun to focus on increasing sales and positioning themselves within markets rather than solely on cutting costs. Economic consulting contacts note that demand is extremely strong for high-end consulting and revenue growth is limited mostly by their own capacity to respond. Demand for health care consulting is generally strong, with the exception of pharmaceuticals, but some business lines have slowed as firms wait until the uncertainty over health care reform clears up. One consulting firm has seen rapid growth due to two new large government contracts, but notes that individual consulting firms' prospects are contingent upon the funding status of and uncertainty surrounding the specific agencies with which they do business.

Contacts report wage increases in the low single digits and expect this pace to continue. Input costs consist primarily of salaries in this sector, but other cost growth is generally low. Firms say they are able to pass on cost increases to clients and thus see either steady or slightly increasing profit margins. Responding firms say they changed employment levels very little in the first quarter of 2012, except for economic consultants who are hiring to meet demand growth, and a strategic and management consultant with small layoffs. Aside from economic consulting, contacts do not plan to expand headcounts in the near future, requiring more rapid increases in demand to reinitiate hiring.

Most contacts expect moderate growth for the rest of 2012, with some anticipating an acceleration either late in the year or in 2013. They note very few downside risks, saying their biggest concerns are the macro economy in general and uncertainty surrounding partisanship in Washington and the upcoming election.

Commercial Real Estate

Reports from commercial real estate contacts in the First District indicate that conditions are largely unchanged since the last report. Boston's commercial property market remains more active than other New England markets, which are "quiet," a term one contact used to describe Portland. Contacts note that investment demand for prime office and apartment properties continues to be robust in Boston and expect it to remain so for the foreseeable future. Office and retail demand elsewhere in New England is moderate. Contacts in these areas do not foresee increases in vacancy rates, but note that a dearth of interest from potential entrants to these markets means they are unlikely to fall in the near future. Retail sector rents remain flat across the region and all contacts reported retail sector vacancy rates somewhere between flat and modestly decreasing.

Construction activity continues at moderate levels in Boston and low levels elsewhere in the District. One contact perceives an increased interest in new retail and medical office projects in Boston for the first time in recent history. Another contact expects education sector construction activity in the Boston area to increase later in the year, but notes that large health care projects continue to be delayed. Market appetites for multifamily apartment development remain strong in Boston. According to contacts, favorable terms but strict standards characterize financing markets for construction projects in Boston and financing conditions in Boston remain markedly better than in the region's smaller markets. Respondents throughout the region remain cautiously optimistic about the coming months, but many acknowledge that commercial markets will not begin to pick up until macroeconomic conditions improve substantially.

Residential Real Estate

Residential real estate in New England shows signs of strengthening as sales continued to increase in February, except in Connecticut where February sales were close to year-earlier levels. According to most contacts, activity is improving across all price segments. Contacts cite low interest rates, falling prices, improving economic conditions, and milder weather as factors contributing to the observed sales increases. Nonetheless, contacts remain cautious about the prospect of housing-market recovery because home prices continued to decline across the six states. Most contacts attribute falling prices to distressed properties; however, they also say the role of distressed properties in the market is diminishing. In the Greater Boston area, by contrast, the median sale price of homes and condos rose in February compared to a year ago. Respondents say buyer activity in Boston has intensified and they are concerned that inventory levels will not provide adequate selection for homebuyers.

Contacts in states with significant levels of inventory remain cautiously optimistic about the near future; they say sales growth observed in recent months appears promising, but declining prices remain a source of concern. Other contacts maintain a more optimistic outlook for coming months due to inventory levels coming into balance with buyer activity. Based on pending sales figures and current market activity, contacts expect growth in year-over-year sales to continue into spring.

SECOND DISTRICT--NEW YORK

Growth in the Second District's economy has picked up somewhat since the last report. Labor market conditions have been stable to slightly stronger in recent weeks, and a sizable number of contacts say they plan to add workers in the months ahead. While consumer prices generally remain steady, business contacts in a number of industries indicate rising cost pressures. Manufacturers report steady improvement in business conditions. Most retailers and auto dealers describe sales as steady but strong in February and the first few weeks of March. Tourism activity has been mixed but generally strong since the last report, with bookings for the months ahead described as robust. Home sales activity has continued to strengthen since the last report, though prices have been steady to somewhat lower; rental markets have continued to improve, and there has been a pickup in rental multi-family construction. Commercial real estate markets remained steady in the first quarter of 2012. Finally, bankers report increased loan demand, no change in credit standards, and the most widespread declines in delinquency rates in a number of years.

Consumer Spending

Retailers report that sales were mixed but mostly steady and strong in February and the first few weeks of March. One major retail chain reports that sales were above plan and running more than 5 percent ahead of year earlier in both February and March, led by strength in spring apparel and accessories. Retail contacts in upstate New York report that sales in recent weeks have been strong and running roughly on par with a year earlier, which was also characterized as a very strong period, with continued strong demand from Canadian shoppers. However, another major retailer indicates that same-store sales were below plan and down considerably from 2011 levels. Retail prices continue to be mostly stable, but one major chain notes declining costs for apparel merchandise. Inventories are generally reported to be at desired levels.

Auto dealers in upstate New York report that sales activity picked up in February and has remained strong in the first few weeks of March. Sales of new vehicles were up 4-7 percent from a year earlier in February and remained fairly strong in March. Inventory stock-outs are no longer a factor holding down sales. Business generally remains brisk at dealer service departments, although dealers in the Buffalo area report that unseasonably mild weather has reduced demand for winter-oriented service. Wholesale and retail credit conditions remain favorable.

The Conference Board's latest survey of residents of the Middle Atlantic states (NY, NJ, PA) shows confidence slipping moderately in March, though it remains well above its lows of last October. Tourism activity has been fairly robust since the last report, and hotel bookings for upcoming months look strong as well. Albany area hotels report rising occupancy rates in February. New York City hotels report that total revenues per room were up roughly 6 percent from a year ago in February and March, with particular strength in the last couple of weeks. All of the increase reflects higher occupancy rates, as room rates have leveled off. Moreover, an industry contact notes that advance bookings are very strong and that room rates are poised to rise. Attendance at Broadway theaters was fairly robust in February but has tapered off in March, largely because fewer shows are running than at this time last year; however, revenues continue to run ahead of 2011 levels, reflecting a substantial rise in ticket prices.

Construction and Real Estate

Housing markets across much of the District appear to have picked up since the last report, while rental markets continue to firm. Home sales are reported to be on the upswing in northern New Jersey, though prices are steady to declining, largely due to more distressed properties coming to market. One industry expert notes surprising strength in new multi-family construction in New Jersey—almost entirely rental units—thus far in 2012; this segment now accounts for well over 50 percent of all new homebuilding, which is said to be unprecedented. Apartment rental markets in both New York City and northern New Jersey continue to firm, with inventories tight and rents rising steadily. A major New York City appraisal firm notes that Manhattan's co-op and condo market has firmed since mid-February: while prices remain flat, sales have picked up—especially for studio and 1-bedroom co-ops—and new contract activity is estimated to be running 7 percent ahead of a year earlier. Conditions in the outer boroughs have been somewhat softer. Real estate contacts in western New York State report continued gradual improvement in home sales activity but note some downward pressure on prices.

Commercial real estate markets have been mixed but, on balance, steady since the last report. Office vacancy rates in New York City and on Long Island declined in the first quarter, while rents have risen moderately. By contrast, office markets have slackened in northern New Jersey, Westchester and Fairfield counties, and in Rochester. Most other metro areas in upstate New York have seen steady to slightly declining vacancy rates. Industrial markets across the District have been fairly stable.

Other Business Activity

A major New York City employment agency specializing in office jobs reports that hiring activity has held steady since the last report. Legal hiring has picked up somewhat but for specific positions with specialized qualifications, while finance-sector hiring remains modest. More broadly, though, a sizable number of manufacturers and a growing number of business contacts in other sectors say that they plan to step up hiring activity in the months ahead.

Looking at business conditions more generally, manufacturers across New York State report continued improvement since the last report, while a growing proportion of non-manufacturing contacts report increases in business activity. Business contacts in both manufacturing and other sectors report that input costs are rising; however, selling prices are reported to be holding steady, on balance.

Financial Developments

Small to medium-sized banks in the District report increased loan demand in all categories, but particularly for commercial mortgages. Bankers indicate increased demand for refinancing but to a less widespread degree than in recent months. Credit standards are reported to be little changed across all loan categories. Respondents note a decrease in spreads of loan rates over the cost of funds for all loan categories—particularly for commercial and industrial loans where well over two in five bankers report lower spreads, while none report higher spreads. Respondents also indicate some decline in average deposit rates. Finally, bankers report decreases in delinquency rates for all loan categories. Moreover, the reported decreases are more widespread among our banking contacts than at any time since the late 1990s.

THIRD DISTRICT – PHILADELPHIA

Overall, business activity in the Third District has continued to show slow, steady improvement since the previous Beige Book. Overall sentiment improved, and the unseasonably mild weather undoubtedly contributed to this. Since the last Beige Book, manufacturing activity has grown further, and many manufacturing industries have contributed to this growth; however, the pace has slowed slightly. Retail sales continued to grow modestly. Motor vehicle dealers experienced unseasonably strong sales growth in February, but sales were less robust in March. Third District banks have reported slight growth in demand and continued strong credit quality since the last Beige Book. New home construction continued to improve in Pennsylvania but slowed in New Jersey due to the large inventory of distressed homes. Little change was seen by commercial real estate contacts who reported slowly improving markets. Overall, service-sector firms reported continued growth. Price pressures have remained contained for most sectors, with little change from the last Beige Book.

The outlook remains relatively optimistic among most firms, similar to the sentiment expressed in the last Beige Book. Manufacturers' expectations for the next six months have changed little and remain relatively high. Retailers continue to expect slow, steady improvement. Auto dealers anticipate continued strong sales; however, they acknowledge that the robust first quarter might shave a little off the typical spring seasonal surge. Banking, real estate, and service-sector firms continue to plan for slow growth in 2012. In general, business plans remained cautious; however, there was a noticeable lack of the litany of risks and uncertainties as expressed by contacts over the last six months.

Manufacturing

Since the last Beige Book, Third District manufacturers have reported continued growth of new orders and shipments, although the pace has slowed slightly. Gains were widespread among the makers of food products, lumber and wood products, fabricated metals, industrial machinery, and instruments. New apartment construction, rising auto sales, and Marcellus shale activity are driving increased demand, according to various contacts. A lumber firm expects growth but mostly from market share gains.

Manufacturers of food products and of chemicals expressed concerns about the impact of rising fuel prices on their input and output prices.

About nine out of 10 Third District manufacturers expect business conditions to improve or stay the same during the next six months; firms are evenly divided. Seasonal trends may be responsible for some of the anticipated improvement, but the optimism is nearly uniform across all major sectors. The usual litany of risks and uncertainties to the outlook – typical over the past six months – was virtually absent from current comments by manufacturers. However, caution remains; expectations of capital spending and future hiring have changed little since the last Beige Book.

Retail

Third District retailers reported modest growth rates overall but expressed greater certainty that mild weather had played a significant role in year-over-year comparisons. According to one contact, outlet malls fared better than broad retail but they should have experienced stronger sales. Gas prices pinched. While mild weather attracted more people, the average purchase per store dropped from year-ago levels. Overall, retail contacts see the economy firming but remain very cautious.

Auto sales were robust in February for dealers in New Jersey and Pennsylvania. For the first two months of the year, year-over-year sales growth in New Jersey was reported to be higher than national growth despite a soft January report. Pennsylvania contacts indicated that March sales were strong but not as robust as in February. The outlook for auto sales remains strong. However, contacts indicate that the rapid first quarter pace may somewhat dampen the spring sales season, which typically peaks in May or June. Modest hiring continues at select dealers, but caution remains the trend.

Finance

Overall, loan demand has continued to grow slightly in the Third District since the previous Beige Book; however, activity has been uneven. Mirroring trends noted by other sectors, community banks note that the strongest loan demand has been for inventories and capital equipment to manufacturers and for investments in higher education, health care, technology sectors, and multifamily housing. One large bank contact noted strong demand from middle-market private equity firms, while the pace of refinancing had diminished. Most contacts reported solid credit quality.

Real Estate and Construction

Since the last Beige Book, residential builders have reported mixed results for sales – and hence for their construction activity – depending on the extent of distressed sales activity in their region. Builders reported slower sales in southern New Jersey – where foreclosure rates are the highest – but continued apace in Pennsylvania. A Pennsylvania builder was more encouraged than at any time in the past five years; the company is doing more hiring for sales and for construction workers. One contact observed the resumption of heavy flows of specialized construction trade workers on the roads between Philadelphia area worksites and their Lancaster area homes; this level of activity has been absent for five years. Residential brokers reported strong, weather-aided year-over-year sales growth. The outlook among builders and brokers remains somewhat more positive.

Nonresidential real estate activity has continued to slowly improve since the last Beige Book, with few changes. The industrial real estate market remains the strongest, followed by higher education, multifamily residential investment, and activities related to Marcellus shale. Philadelphia's Center City office market is characterized by a continuing trend toward consolidations and a growing trend toward conversions to apartments. The overall outlook for nonresidential real estate remains positive but modest.

Services

Most Third District service-sector firms have reported further growth since the last Beige Book. Firms' strongest demand emanated from higher education and health-care institutions. Hospital systems reported rising admissions. Staffing firms reported mixed results, with strong orders from the manufacturing, health-care, and technology sectors. Demand for general administration and for clerical workers has been softer; however, clients were beginning to talk of hiring plans. Service-sector firms anticipate that growth will steadily improve in 2012.

Prices and Wages

Price levels have changed little since the previous Beige Book – remaining generally constrained. Some deals and promotions are beginning to sap strong auto dealer pricing power. This was anticipated as Japanese automakers resumed normal production levels. New federal regulations, including medical certification requirements for commercial drivers, have exacerbated truck driver shortages. Favorable pricing power for freight shippers will push costs along to their customers and end-users. As a recent study predicts, these high costs could rise even further if the need arises to truck fuel to nearby markets that are currently being served by pipeline from refineries that are being closed. Price pressures have eased somewhat for manufacturing firms since the last Beige Book. Retailers and homebuilders continued to report tight margins with high, not rising, nonlabor factor costs. House prices have fallen further; however, nonresidential rents are stabilizing in some sectors. Contacts continued to report a lack of wage pressures, other than for medical benefits.

FOURTH DISTRICT – CLEVELAND

The economy in the Fourth District grew at a modest pace since our last report. Manufacturers reported a small increase in production, while activity in residential and nonresidential construction picked up slightly. Many retailers and auto dealers characterized February sales as good. Energy production was stable except for shale gas, where activity expanded. Freight transport volume trended higher at a moderate rate. And the demand for business and consumer credit improved slightly.

Hiring remains at a low level and was mainly limited to the manufacturing and freight transport sectors. Staffing-firm representatives reported that the number of job openings has increased, especially for information technology and healthcare workers. Wage pressures are largely contained. Prices were largely stable apart from increases in petroleum-based products, metals, and some building materials.

Manufacturing

Production at District factories showed a small increase during the past six weeks, and a majority of manufacturers said that output was above year-ago levels. However, several contacts reported that the boost in new orders they had seen late last year is leveling off and they are uncertain about sales to European customers. Some of our respondents expressed a more cautious outlook than at the start of 2012, but they are not expecting a significant weakening. Shipping volume by steel producers and service centers was trending slightly higher. Demand is being driven by the auto, energy, and industrial equipment markets. Steel representatives are cautiously optimistic about second-quarter shipments, and they expect the positive growth trend to continue. District auto production showed a modest rise during February on a month-over-month basis, while increasing substantially from prior-year levels. Increases were attributed, in part, to the abatement of supply chain issues.

Capacity utilization has returned to normal rates for the majority of our contacts, while inventories were consistent with demand. Capital budgets remain on track, with many manufacturers reporting that they plan to increase outlays during the next several months. Input- cost changes were mainly limited to rising prices for petroleum-based products and metals. Only a few producers said that they are considering raising product prices during the second quarter. Manufacturers continued to hire, but at a modest pace. We heard reports about difficulties recruiting professional and high-skilled production workers. Wage pressures are contained. Several contacts said that they need to allocate additional monies for pension plans due to low rates of return.

Construction

Single-family-home construction has improved slightly during the past couple of months, although overall sales remain at very low levels. Activity in multi-family construction and remodeling remains strong. Single-family-home builders are a little more optimistic in their outlook due to the time of year and low mortgage interest rates. A few builders reported reducing house sizes and altering interior specs as a means of holding new- home prices steady. Employment and wages were stable.

Activity in nonresidential construction for small to medium-size contractors continues to strengthen and is at a higher level than a year ago. Inquiries were up substantially for most of our contacts, although backlogs, while growing, are not as strong as builders would like. Financing projects remains one of the biggest challenges facing contractors. Construction activity is broad-based, driven by student housing, senior housing, healthcare, office, and manufacturing. Our contacts expect that business will slowly improve as the year progresses, but it will remain below pre-2008 levels. Looking at building-materials prices, residential and nonresidential contractors reported increases for petroleum-based products, drywall, and lumber. Hiring by nonresidential general contractors was limited. Several commented that they need to see more robust growth before expanding their payrolls.

Consumer Spending

Retailers reported that sales were ahead of plan during the past six weeks and increased by single digits relative to year-ago levels. Almost all of our contacts cited the unusually warm weather as a primary factor for the pickup in sales, which was seen across their product lines. However, several of our respondents described middle-income households as challenged. These consumers are trading down, looking for value, and they remain very sensitive to rising gasoline prices. Most retailers expect second-quarter sales to increase over prior-year levels, mainly in the low- to mid-single digits. However, grocers anticipate little change in sales. Reports on vendor pricing were mixed. Upward pressure was attributed mainly to rising transportation and offshore labor costs, with little emphasis on changes in raw material pricing. There was some reluctance to pass through rising costs to consumers. Inventories were characterized as being in good shape. Capital spending for the year remains on track. Outlays will be used largely for technology enhancements, distribution facilities, store expansions, and new store construction. Little hiring is anticipated except at new stores.

Auto dealers described new-vehicle sales during February as good. Sales received a boost from the unusually warm weather. We heard one report of a shale gas producer purchasing 75 vehicles from a dealer. On a year-over-year basis, sales were mainly higher. However, some dealers reported seeing a lull in activity, which they attributed to a significant pick up in vehicle leasing at the beginning of 2011. Inventories are light on the domestic side, but foreign nameplates are rebuilding stocks rapidly, as those manufacturers are trying to recapture market share. The outlook for the remainder of this year was mixed. Half of our contacts expect the rise in 2011 sales will be repeated, while others believe that the rate of increase seen last year is unsustainable. Purchases of used vehicles were fairly strong. On the financing side, interest rates are competitive, but it remains difficult to arrange financing for customers with low credit scores. Auto dealers are hiring at a very slow rate.

Banking

Demand for business credit was described as either steady or rising, with a majority of bankers telling us that loan pricing remains competitive. Requests are being driven by commercial real estate, including multifamily housing, and healthcare. Consumer credit requests rose slightly during the past six weeks. Demand was mainly for auto lending (direct and indirect) and home equity lines of credit. Several community bankers commented that it is difficult competing against large banks, credit unions, and captives, especially for motor vehicle loans. In the residential mortgage market, demand was described as steady to very strong. A high percentage of applicants are looking to refinance. No changes were made to loan application standards. Delinquencies were generally steady or declined; any increases were found largely in real estate portfolios. Core deposits continued to grow. Payrolls were stable, with little hiring expected.

Energy

Conventional oil and natural gas drilling and production were flat since our last report, with little change expected in the upcoming weeks. Our contacts attributed these conditions to low natural gas prices and regulatory costs. Well-head prices for oil were up slightly. Leasing activity in Ohio's Utica shale continues to expand, and energy companies are redeploying drilling resources from dry gas to the wet gas areas of the Marcellus shale due to its significantly higher market value. The outlook for coal production during 2012 is similar to 2011 levels. However, there is a growing likelihood that output will decline due to the regulatory environment and lessening demand from electrical utility companies and offshore markets. Spot prices for metallurgical and steam coals continued to decline. Production equipment and materials prices were fairly steady except for rising diesel fuel prices and the cost of items tied to steel. Energy payrolls were stable, though some small oil and gas companies are considering layoffs because of reduced revenues.

Transportation

Freight transport volume has been trending higher during the past few weeks. Industries driving demand include energy and metals. One executive noted a significant upswing in long-term leasing of his railroad cars. Volume is expected to continue growing at a moderate pace for the remainder of the year. Costs associated with truck maintenance have begun stabilizing after increasing for two consecutive quarters. The price of diesel fuel continues to rise, although a few of our contacts characterized it as manageable. Some of the increase was passed through via surcharges. Capital spending for 2012 remains on plan. Outlays are allocated for replacement of aging units and adding capacity, although it remains difficult to recruit qualified drivers. We heard two reports of additional drivers being hired to meet potential staffing requirements under the new hours-of-service rules. Some wage pressure exists due to a tightening of the driver pool.

FIFTH DISTRICT–RICHMOND

Overview

Business conditions have improved in the Fifth District economy since our last report. Manufacturing activity continued to advance, although somewhat more slowly than at the beginning of the year. While trade activity increased, imports improved somewhat more slowly than exports. Retail sales activity rose sharply, as shopper traffic increased and big-ticket sales strengthened. Services-providing firms also recorded solid revenue growth in recent weeks, and unseasonably warm weather bolstered tourism. Bankers reported modest gains in most types of lending; however, other than refinancing, the amount of mortgage lending remained relatively weak. Nonetheless, Realtors noted an increase in sales of existing homes, and contractors reported an uptick in new home construction. Commercial real estate activity also improved moderately across most segments of the market, although contractors reported fewer government-related new construction projects. Hiring activity picked up, especially for temporary workers. Finally, the pace of price increases rose marginally over the last month, according to our latest manufacturing and service sector surveys.

Manufacturing

Activity expanded moderately over the last month. However, shipments, new orders, and employment all grew at a somewhat slower pace since our last report, with several contacts citing the increasing cost of petroleum–based products as a major factor affecting their business. An automotive parts manufacturer reported that customer orders remained elevated, but he was concerned that orders and sales could weaken if recent high fuel prices persist. A contact at a lumber mill stated that he had seen improvement in both sales and output prices since the beginning of the year. In contrast, a paper producer said that his firm was experiencing a significant decline in business, adding that most of his employees were currently on a thirty hour workweek. A textile manufacturer said that synthetic raw material prices were “soaring,” but that it was difficult to pass these increases through to customers. According to our recent survey, prices of both raw materials and finished goods grew at a somewhat quicker pace than a month ago.

Port activity in the District continued to strengthen since the end of last year, with exports slightly outperforming imports. Several port authorities reported that roll-on, roll-off stock was up. Indeed, several officials noted that autos and automotive parts were key products boosting both imports and exports. Exports of bulk goods, including coal, wood by-products, and agricultural goods, continued to be robust. An executive at a large container carrier noted that downward pressure on shipping rates persisted due to excess capacity. Rising fuel costs were cited as causing serious problems for both land and ocean shippers. However, most port contacts expected that exports and imports would continue to strengthen.

Retail

Retail sales strengthened markedly since our last report. Gains were led by rising shopper traffic and an uptick in big-ticket sales, while inventories flattened. A store manager in West Virginia remarked that unusually warm weather had caused sporting goods sales to pick up earlier than normal. Additionally, home improvement sales were up at most of the merchants polled in our latest survey. A contact at a home improvement chain noted particular strength in sales of kitchen remodeling components. Higher gasoline prices led to freight surcharges, according to several contacts. Sales of both domestic and foreign cars remained strong, as consumers replaced aging vehicles and looked for better fuel-efficiency. Consumers continued to bargain intently, with a North Carolina furniture retailer commenting that margins were "the tightest they've ever been." A contact at a Virginia food chain remarked that customers were purchasing more selectively, as retail prices accelerated. However, a home appliance retailer noted that consumers absorbed significant price increases.

Services

Revenues expanded at service-providing firms, despite concern about the rising cost of gasoline. Contacts at construction-related service firms reported an increased volume of business, and sales activity picked up at several advertising firms and travel services. Information technology firms also noted greater demand, particularly from the healthcare industry. Stronger demand allowed some trucking firms to raise prices to offset fuel cost increases. However, a trucking executive indicated that the shortage of drivers remained a serious concern. A manager of a restaurant chain in Maryland noted that people were eating out more, but area restaurants still needed to increase their use of incentives to compete for customers. Finally, a recent survey indicated that the pace of price change inched up at services-providing firms.

Finance

Modest improvements in lending activity were widely reported since our last assessment. Officials at several large banks reported slow upward movement in commercial lending, particularly to small businesses that were financing inventory and new equipment. Several community banks around the District noted an increase in commercial lending for office and retail space. A lending officer in Richmond reported further strength in consumer borrowing, especially to meet home improvement and auto financing needs. Many bankers stated that mortgage financing remained weak, with the exception of home refinancing. However, several bankers from across the Districted noted a slight pickup in new home loans beyond seasonal norms. Competitive pressures among banks remained intense, putting downward pressure on rates. Several bankers reported that they were offering easier terms to attract new commercial borrowers. Loan quality and payment timeliness continued to improve, according to most bank officials.

Real Estate

Residential real estate activity showed promising signs of recovery since our last report. Several contacts stated that they were beginning to see a “ray of hope” in the housing sector, and several builders reported starting construction in areas that had not seen new building activity for several years. For example, a source from Charlotte said that real estate was starting to move again in his area, and another North Carolina contact described multi-family housing activity, particularly for senior citizens, as being “on fire” in recent months. Lower inventory of both new and existing homes was reported in northern and central Virginia, with contacts noting that “days on market” were down as well. Moreover, a few contacts noted that housing prices had stabilized and, in some markets, prices were beginning to trend upward.

Some agents attributed the rise in sales price to greater buyer traffic as a result of unseasonably warm weather. Several Realtors reported sales of higher priced homes were faring better than other price categories. A number of Realtors held a positive outlook for expected sales.

Commercial real estate leasing and construction activity improved across most segments of the market since the beginning of the year. Several commercial Realtors reported solid increases in inquiries about availability of office and retail space, but only moderate growth in leasing of those properties. Still, leasing rates were firming, according to agents, due to the reduction in the number of attractive properties still on the market. Most contractors cited moderate increases in private sector construction projects. Unusually warm weather helped contractors finish projects ahead of schedule, but some contractors with weak backlogs sought to spread out work in order to keep their workforce active. In contrast, government sector projects declined dramatically, according to several contractors, although one builder noted an increase in demand for secondary education facilities. Both contractors and Realtors reported that access to financing continued to be limited, and the required paperwork was inhibiting completion of loans on a timely basis. Prices of construction-related goods, especially petroleum-based products, cement and drywall increased in recent months, according to contacts, with most having only minimal success passing through any cost increases.

Labor Markets

Fifth District labor markets improved moderately in recent weeks, with several employment agencies citing strong demand for temporary workers. The increase in overall demand was attributed to a general strengthening in the economy and also to the opening of new companies, coupled with a revival in activity at previously dormant companies. Several employment agencies indicated that some of their clients remained uncertain about future demand, however, and preferred hiring temporary workers. A representative at a North Carolina staffing agency reported that demand for information technology workers was much higher than supply and that the gap was worsening. She added that schools did not have enough graduates to meet the demand in that sector. District manufacturers increased employment more slowly than a month ago, according to our latest survey, while wage gains picked up. Growth in employment and wages in the broad services sector nearly matched our last report.

Tourism

Unseasonably warm temperatures contributed to strong tourist activity since our last report. A North Carolina contact from the outer banks cited exceptional attendance at early spring events. While beach house rental rates were unchanged in recent weeks, real estate rental companies were able to remove incentives that had been included since last autumn. In Washington, D.C., the atypical temperatures resulted in cherry blossoms peaking at the second-earliest date ever. Tourist-related businesses were busy and restaurants were full. This year marks the one-hundred year celebration of the gift of the cherry trees from Japan, with numerous special events planned, drawing a significantly higher volume of foreign visitors than normal. A contact described the crowds as "wall-to-wall humanity."

SIXTH DISTRICT – ATLANTA

Summary

Reports from Sixth District business contacts indicated that the pace of economic activity expanded at a moderate pace in late February through March. Expectations remained generally positive across most sectors, although contacts expressed concern regarding the impact of higher energy prices on the outlook.

Retailers mostly indicated sales were growing at a modest pace and auto sales remained strong. Leisure and hospitality businesses reported robust activity in all segments except cruise lines. Homebuilders and brokers experienced improvements in sales of new and existing homes while multifamily construction remained strong. General contractors noted slow improvements in commercial construction conditions. Manufacturers and transportation contacts reported positive production trends, on balance. Loan demand remained relatively weak according to community bank contacts. The share of firms reporting they were hiring continued to increase, although many contacts continued to express a preference for part-time or temporary contract workers. Most contacts continued to report having relatively little pricing power. However, the proportion of firms saying they were successful in their attempts to pass on price increases rose since the last report.

Consumer Spending and Tourism

Most contact reports on consumer spending were generally positive. Sales of home appliances, furniture, and autos were solid, while apparel was more mixed. Most retailers remained optimistic that sales would improve over the next three months, but noted that the impact of higher gasoline prices posed a downside risk to their sales outlook.

Tourism activity remained strong and contacts were optimistic about the outlook for leisure and hospitality spending in the summer. Occupancy rates were up in many areas and South Florida continued to be boosted by visitors from South America and Canada. Convention activity continued to improve as well. Similar to retail, tourism contacts expressed concern about higher fuel costs and the potential impact on domestic travel to many regional tourist destinations. There continued to be a modest drop off in bookings on some cruise lines, which was attributed mostly to the recent disaster off the coast of Italy.

Real Estate and Construction

The majority of residential broker contacts reported that home sales exceeded the year earlier level in late February and March. More than two-thirds of the brokers indicated that sales met or exceeded their expectations. Florida contacts noted strengthening sales, particularly in South Florida markets. Many noted that inventory levels across the District continued to decline on a year-over-year basis and, in spite of this, home prices were flat to slightly down compared with a year ago. The outlook among brokers for sales growth remained positive, with most anticipating modest year-over-year gains over the next several months.

The majority of homebuilder contacts reported that new home sales and construction rose modestly during late February and March compared with a year earlier. Similar to brokers, builders also noted that home price declines abated somewhat and new home inventories continued to decline on a year-over-year basis. Contacts observed that multifamily construction remained robust across much of the District and new projects continued to be announced. Over the next several months, homebuilders anticipate sales and construction to be flat to slightly up compared with a year ago.

Most commercial real estate contacts indicated that conditions continued to improve slowly in the region. Contractors noted a slight improvement in demand, but the market remained very competitive and overall activity remained at low levels. Commercial real estate brokers continued to report modest improvements in demand, mostly for class A space in urban markets. Some reported that businesses have become more willing to move ahead with lease plans. Rent concessions continued to be noted with several brokers reporting that rates have begun to stabilize; however, longer leases were reported which included generous tenant improvements. The outlook among contacts was a bit more positive than previously reported, but most contractors and commercial real estate brokers continued to anticipate that activity would improve slowly this year.

Manufacturing and Transportation

Manufacturing activity across the Sixth District improved compared with the last report. Most contacts reported an increased level of both new orders and production. Several large auto manufacturers announced plans to hire more workers to meet increased demand for their products. A major industrial equipment producer and two medium-sized manufacturers announced plans to increase their presence in Georgia. Most manufacturers also indicated some increase in non-labor input costs.

Transportation contacts continued to report volume growth across most segments with the exception of air cargo, which is being hindered by slowing global demand and rising fuel costs. A railroad contact noted significant volume increases in automobiles, steel, and forestry products. Domestic coal shipments slowed because of the effects of warmer weather and lower natural gas prices. A port contact indicated strong container volumes and increases in steel imports. The majority of transportation contacts reported substantial investment spending in anticipation of future demand.

Banking and Finance

Contacts at community banks indicated liquidity levels remained high, a result of increasing deposit balances and relatively soft loan demand. Some contacts acknowledged a slight increase in demand for C&I and commercial real estate loans in some metropolitan areas, and a general rise in demand for automobile loans. In rural areas, however, low property valuations were said to be hindering overall loan activity. The demand for mortgages varied widely by market and some community bank contacts indicated that they have exited the mortgage origination market altogether. Lending standards at these institutions have remained largely unchanged. Smaller institutions noted tough competition from larger banks for credit customers. Many of these contacts expressed concern that regulatory compliance costs were affecting profit margins.

Employment and Prices

Overall hiring trends were positive, but growth remained relatively modest in late February and March. While business contacts noted some increased optimism about the economic outlook, most firms continued to approach expansion plans with considerable caution. Among firms adding to payrolls, many were utilizing temporary or contract hires in order to contain costs and retain flexibility. Reports indicated that smaller businesses were looking to rebuild margins before proceeding to adjust their payrolls. Several businesses, including trucking related firms, asserted that they were faced with a lack of qualified labor. One large manufacturer addressed the issue of the lack of qualified workers by bringing back retirees on a contract basis to help train new hires.

Though most contacts continued to report having little pricing power, more firms recounted successful attempts or plans to pass on price increases since the last report. Increased transportation costs, including those resulting from higher gasoline and other fuel prices, were reportedly passed on to consumers without much difficulty. According to the firms surveyed in the Atlanta Fed's March Business Inflation Expectations survey, unit costs were expected to rise two percent for the year ahead, up slightly from February. According to the businesses surveyed, profit margins, though still below normal, have begun to improve. Firms expect modest improvement in margins over the next year.

Natural Resources and Agriculture

Investment in transportation infrastructure for oil and natural gas continued to increase; however, contacts noted that more investment is needed to accommodate recent increases in domestic and Canadian energy production. District refining contacts noted that the capacity to process the heavier grades of crude oil that are increasingly available is limited, despite recent investment in additional refinery capacity. While conditions improved in parts of the District, much of Georgia and Florida continued to experience varying degrees of drought. Contacts also reported that Florida citrus growers continued to fight greening disease. Prices paid to farmers for poultry and soybeans were up from the previous reporting period. Contacts continued to report concerns regarding available labor supplies in Georgia and Alabama, attributing this to the tougher immigration laws.

SEVENTH DISTRICT—CHICAGO

Summary

Economic activity in the Seventh District continued to expand at a moderate pace in late February and March. Growth in consumer spending picked up, and business spending continued to increase. The pace of growth in manufacturing production was little changed and construction activity increased. Credit conditions improved slightly. Energy prices increased, but with limited pass-through to downstream prices, and wage increases remained moderate. Soybean and cattle prices rose, while corn, wheat, milk, and hog prices decreased.

Consumer spending

Consumer spending increased significantly in late February and March. Retailers reported unseasonably warm temperatures boosted retail sales. Because of the earlier-than-normal start to the spring shopping season, inventories of some lawn & garden, home improvement, and leisure items ended the reporting period on the lean side. Several contacts thought that the recent gains in consumer spending might dissipate over the medium-term, pointing to the temporary nature of the boost from warmer weather and concerns about the impact of higher gasoline prices on consumer budgets. Auto sales increased, with contacts noting improved availability of financing for prospective buyers with below-prime credit ratings. Dealerships continued to report some difficulty in stocking popular models because of supply-chain constraints.

Business spending

Business spending continued to increase in late February and March. Contacts reported that inventories were generally at comfortable levels, with the exceptions in auto and consumer goods noted above. Capital spending increased steadily. Purchases of heavy equipment picked up, led by robust activity in the energy sector. An exception was the coal mining industry which a contact noted was being negatively impacted by mild weather and the cheaper extraction costs for natural gas. Several manufacturers reported spending for technological upgrades as well as moving ahead with planned increases in capacity. Contacts also noted a pick-up in building renovation and increased spending on marketing and for labor force training. Labor market conditions continued to improve. Hiring increased, although it remained selective in many industries. Manufacturing contacts continued to report difficulty in attracting job applicants with ideal skill sets, and in some cases have reduced experience requirements or increased salaries to fill open positions. A staffing firm reported an increase in demand for light industrial, office and clerical, and IT and engineering positions. However, gains in these areas were being offset by declines in others, so that on net temporary employment was little changed.

Construction/real estate

Construction activity increased in late February and March. Demand continued to be strong for multi-family construction, particularly apartments. That said, a few contacts questioned whether current apartment building plans would lead to overbuilding in this segment. Overall, residential real estate conditions improved slightly. Single-family construction was up some from its depressed levels, as large homebuilders have seen a solid increase in sales in the last three months. Realtors noted some increase in activity in the market for existing homes, although many buyers are still waiting for prices to come down further. Foreclosures continued to put downward pressure on prices. Nonresidential construction also increased. Contacts noted a pick-up in industrial, healthcare and infrastructure building activity. Commercial real estate conditions were mixed by segment. Vacancy rates decreased for office and industrial properties, but contacts indicated that excess retail space continues to exist, especially big box stores and strip center/mall space. Commercial rents were flat, as was the available sublease space on the market.

Manufacturing

After a strong start to the year, growth in manufacturing production leveled off in late February and March. With an increase in quoting activity and deepening order books, contacts remained cautiously optimistic that growth would pick up again in the coming quarters. The auto industry continued to be a source of strength. Automakers expected sales to continue to increase over the year, but voiced concern that it would be challenging for production to rise much further above what is already planned given the capacity constraints faced by their suppliers. Confirming this production limit, several auto suppliers reported that they have already been asked by their customers to increase capacity. Capacity utilization in the steel industry was steady, but an industry contact expected to see some acceleration in production in the near term. Demand for heavy equipment was boosted by the need to replace ageing equipment. Exporters continued to benefit from advantageous terms of trade; and despite some softening in demand from Western Europe, again reported robust orders from Asia and Latin America.

Banking/finance

Credit conditions were slightly improved from the prior reporting period. Volatility and risk premia edged lower and concerns about European sovereign debt continued to subside. Several contacts noted an increase in risk appetite, pointing to higher demand for equities and real estate. Banking contacts indicated that business loan growth remained moderate, with their larger corporate clients continuing to cite policy uncertainty as a reason for caution in borrowing. In contrast, consumer loan growth picked up, with credit card usage increasing. Credit availability for households improved, particularly for auto loans and credit cards, where greater competition was leading to more favorable terms for borrowers. However, credit conditions remained tight for homebuilders and small businesses.

Prices/costs

Cost pressures increased in late February and March. Contacts noted higher energy prices, particularly for gasoline, although natural gas prices remained at historic lows. Prices for chemicals, steel, and non-ferrous metals also edged up. Wholesale prices increased; however, retail contacts indicated that it had become increasingly difficult to pass on higher wholesale costs to consumers. Wage pressures increased, but continued to be moderate. Contacts expected that wage and benefit increases this year would not exceed inflation. However, a shortage of skilled manufacturing workers contributed to upward pressure on wages to attract qualified candidates as well as improved benefit packages to retain current employees.

Agriculture

Unseasonably warm weather has jumpstarted field work and corn planting in the District. There were reports of tight supplies of some agricultural chemicals, as well as some types of corn seed. Most of the District has sufficient moisture for a strong start to the corn crop. With spring planting taking place up to a month early, some corn will be harvested in August; combined with the potential of a record corn crop, concerns about corn stocks being low before the traditional harvest time diminished and corn prices moved lower. Soybean prices have risen in response to lower-than-expected harvests in South America. The increase in soybean prices relative to corn prices, as well as some acreage being removed from environmental protection restrictions, resulted in an increase in the number of acres that famers expect to plant in soybeans. Milk and hog prices decreased, while cattle prices continued to rise.

EIGHTH DISTRICT—ST. LOUIS

Summary

The economy of the Eighth District continued to grow at a modest pace since our previous survey. Residential real estate market conditions have improved moderately. Similarly, commercial real estate market conditions also have improved. However, recent reports of plans from firms in the manufacturing and services sectors were more mixed. Overall lending at a sample of small and medium-sized District banks was essentially unchanged during the three-month period from mid-December to mid-March.

Manufacturing and Other Business Activity

Reports of plans for manufacturing activity have been mixed since our previous report. Several manufacturers announced plans to increase operations and hire workers, while a similar number of contacts reported plans to close plants and lay off workers in the near future. Firms in the pipe, bathroom products, all-terrain vehicle, construction machinery, processed poultry, and power tool manufacturing industries announced plans to increase existing operations or open new plants in the District. In contrast, firms in the oil blending and packaging and fish farming industries announced plans to close plants and lay off workers. In addition, a major firm in the printing industry announced plans to close a plant in the District and lay off a large number of workers.

Reports of planned activity in the District's services sector also have been mixed since our previous survey. Firms in hotel, business support, distribution, and natural gas distribution services announced plans to expand operations and hire new workers. In contrast, contacts in health care, distribution, freight transportation, casino, and storage services announced plans to close facilities and lay off workers. General retail contacts have reported strong sales for the first two months of the year, and they expect positive sales growth to continue through 2012. District auto dealers have reported strong demand in the luxury automobile market while truck sales have been down.

Real Estate and Construction

Home sales increased throughout most of the Eighth District on a year-over-year basis. Compared with the same period in 2011, February 2012 year-to-date home sales were up 10 percent in Memphis, 24 percent in St. Louis, 19 percent in Louisville, and 14 percent in Little Rock. Residential construction increased in the majority of the District over this time period. February 2012 year-to-date single-family housing permits increased in the majority of the District metro areas compared with the same period in 2011. Permits increased 22 percent in Memphis, 63 percent in Louisville, 28 percent in Little Rock, and 25 percent in St. Louis.

Commercial and industrial real estate conditions improved moderately throughout most of the District. Contacts in northeast Arkansas continued to report strong commercial real estate activity in the Jonesboro area. A contact in Little Rock noted stronger commercial real estate activity for office and retail space than last year. Contacts in the Louisville metropolitan area reported improvement in office real estate activity and expect increases in the demand for industrial space. However, a contact in central Kentucky noted that commercial real estate activity is very soft. Commercial and industrial construction activity showed modest improvement in several parts of the District. A contact in Little Rock reported that new construction activity has improved because of the mild winter weather, but it is still at weak levels. Contacts in central Arkansas reported increased bidding in commercial construction projects, while a contact in western Kentucky noted large commercial and industrial construction projects to be completed in Owensboro.

Banking and Finance

Total loans outstanding at a sample of small and medium-sized District banks were essentially unchanged in the three-month period from mid-December to mid-March. Real estate lending, which accounts for 73.7 percent of total loans, decreased 0.4 percent. Commercial and industrial loans, accounting for 15.8 percent of total loans, grew 2.2 percent. Loans to individuals, accounting for 4.7 percent of loans, decreased 1.3 percent. All other loans decreased 8.8 percent and accounted for 5.8 percent of total loans. Over this period, total deposits increased 1.9 percent.

Agriculture and Natural Resources

Monthly output of commercial red meat in the District for February 2012 increased 9.9 percent compared with February 2011. However, monthly output of commercial red meat declined 4.4 percent between January and February 2012. The number of chickens slaughtered and the total live weight also decreased by 4 to 5 percent between January and February 2012. The District's year-to-date coal production for early March was 3.5 percent lower compared with the same period last year. Similarly, the District's coal production for February was 2.4 percent lower than in February 2011.

NINTH DISTRICT—MINNEAPOLIS

The Ninth District economy grew at a solid pace since the last report. Strength was noted in consumer spending, professional services, construction, manufacturing, energy and mining, and agriculture. Residential real estate had an unexpectedly large increase in sales activity. Warm weather slowed winter tourism activity. Hiring activity outpaced layoffs since the last report. Wage increases were moderate, and price increases were generally subdued.

Consumer Spending and Tourism

Consumer spending continued to expand moderately. Same-store sales at a Minnesota-based retailer increased 7 percent in February compared with a year ago. February sales at a Montana mall were up about 10 percent over last year; remodeling activity was strong for new stores and expansions. March sales were up over 5 percent compared with a year earlier at a North Dakota mall. However, a Minnesota-based hair salon plans to close some of its stores. A Minnesota auto dealer reported that mild weather depressed service and vehicle sales during January and February, but auto sales bounced back in March. In addition, higher gasoline prices don't seem to be influencing buying decisions away from SUVs and light trucks.

Lack of snow and warm temperatures slowed winter tourism in a number of areas; however, late-season snow perked up activity in some places. Enough snow fell in northwestern Wisconsin during February to hold the annual American Birkebeiner cross-country ski race, bringing thousands of visitors to the area. Western South Dakota received late-season snow, which enabled a strong finish for snowmobiling and downhill skiing. A ski resort in Montana reported that visits and revenue were up from a year ago.

Construction and Real Estate

The continued warm weather aided construction activity. The value of commercial building permits in the Sioux Falls, S.D., area was up in February from a year earlier. The value and number of new commercial permits increased in Fargo, N.D., during the first two months of 2012 compared with the same period in 2011. Residential construction increased from a year ago. The value of residential building permits increased significantly in the Sioux Falls area in February. The number of single-family building permits increased in Minnesota in January 2012, compared with January 2011. Several new multifamily projects were planned for the Minneapolis area.

Commercial real estate market activity increased. A commercial broker in Minneapolis noted more leasing activity, especially for class A space. Residential real estate had an unexpectedly large increase in sales activity. Home sales in February were up 23 percent from the same period a year ago in the Minneapolis-St. Paul area, and the inventory of homes for sale was down 27 percent. However, median sales prices dropped slightly. In the Sioux Falls area, February home sales were up 5 percent and inventory was down 7 percent relative to a year ago. A broker noted that lower-priced homes saw an investor “feeding frenzy,” with properties selling in a few days with multiple offers.

Services

Activity at professional business services firms increased slightly since the last report. An accountant noted that this tax season was busier and that many firms saw an increase in earnings in 2011 compared with 2010. A bank director from Montana noted that law firms were experiencing mixed activity and that firms specializing in petro-chemical and environmental engineering were seeing increased activity, while mechanical and structural engineering activity was flat to down.

Manufacturing

Manufacturing activity expanded. A survey of purchasing managers by Creighton University (Omaha, Neb.) found that manufacturing activity in Minnesota and the Dakotas increased in March. A manufacturer based in northwestern Wisconsin announced plans to build a production plant. A mill in Minnesota will begin a $170 million conversion from producing pulp for paper mills to producing cellulose for textiles. A brewery in Minnesota is expanding its operations. In contrast, a manufacturer of recreational vehicles in South Dakota has halted production and may not reopen.

Energy and Mining

Activity in the energy and mining sectors continued at strong levels. Oil and gas exploration activity in North Dakota increased since the last report, but was flat in Montana. A Federal Circuit Court judge upheld a permit for construction of a $10 billion oil refinery in southeastern South Dakota, which would be the first new refinery in the United States since 1976. A separate $500 million diesel refinery was in early planning stages in western North Dakota. Two District ethanol plants are planning conversions to produce a different biofuel. Ninth District iron ore mines continued to operate at near capacity. A mining firm is developing plans in northern Minnesota for a large underground mine to tap a recently discovered copper deposit. Meanwhile, a tribe in western Montana moved to block a copper and silver mine on a wilderness site.

Agriculture

Agricultural conditions remained strong. Cattle ranchers benefited from both high beef prices and strong export demand as well as ideal weather for the calving season. Drought conditions remained in Minnesota, the Dakotas and western Wisconsin, but were abated somewhat by recent rain and snowfall. Drier conditions may actually lead to increased corn plantings in the eastern Dakotas by making long-flooded fields available. Unseasonably warm weather has led to reports of early spring wheat plantings in some areas. Prices received by farmers for wheat, corn, dry beans, cattle, hogs, eggs and poultry increased in March from the previous month, while dairy prices fell for the month and the year.

Employment, Wages and Prices

Hiring activity outpaced layoffs since the last report. The new production plant in northwestern Wisconsin is expected to hire 300 workers. In Montana, a company that services student loans could hire about 100 more people this summer. A new wheat straw pulping and molding factory in North Dakota will create 100 jobs. A major Minnesota-based employer noted that fewer employees accepted a recent early retirement offer than expected. In contrast, a telecommunications firm in Minnesota will eliminate 85 positions as part of a restructuring plan, and a printer laid-off almost 50 workers.

Wage increases were moderate. In a first quarter business survey by St. Cloud State University (Minnesota), 65 percent of respondents left wages unchanged in the past three months. However, in western North Dakota and eastern Montana, strong oil-drilling and production activity continued to bid up pay. In contrast, a Minnesota business that makes in-store advertising for retailers was cutting compensation for salespeople and some managers while laying off some staff.

Price increases were generally subdued; however, some exceptions were noted. More than two-thirds of respondents to the St. Cloud survey reported that prices at their companies did not change over the past three months. Late March Minnesota gasoline prices were up about 25 cents per gallon from mid-February and 20 cents per gallon from a year ago. Airlines raised airfares during the past couple of months in response to higher fuel costs. A Minnesota-based food company noted that input cost increases were above 10 percent. Amid higher oil prices, low natural gas prices have spurred energy and transportation companies to pursue conversion projects.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy expanded at a faster pace in late February and March. Consumer spending improved, residential real estate activity rose solidly, and commercial real estate activity edged higher. Growth in the energy industry eased slightly but remained solid. Manufacturing firms reported further increases in activity, and agricultural conditions improved from the previous survey. Transportation activity picked up slightly, and high-tech service firms said sales growth was mostly solid. Bankers noted steady loan demand, better loan quality, and rising deposits. Prices rose slightly, but wage pressures were contained outside of a few skilled positions.

Consumer Spending

Consumer spending improved and expectations for the months ahead remained solid. Retail sales rose moderately from the previous survey, although several contacts noted concerns about lower discretionary spending due to rising gasoline prices. Store inventories remained stable and were expected to rise only slightly in future months. Auto sales rebounded strongly from the previous survey, with several dealers citing increased customer traffic and pent up demand as key reasons. Contacts said rising fuel prices have led to stronger sales of fuel efficient vehicles, and sales of large SUVs and trucks weakened. Expectations for future auto sales remained positive and inventories continued to increase. Restaurant sales improved, with further growth expected in coming months. Tourist activity edged higher, with several contacts noting increased business travel. Tourism contacts remained generally optimistic about future months.

Manufacturing and Other Business Activity

District manufacturing activity grew solidly, and expectations for future activity strengthened. Factory orders and shipments increased, and employment growth remained steady with some future hiring planned. Continued strong commodities-related activity boosted machinery production, and high-tech and aircraft manufacturing growth remained strong. Although rising gasoline prices and continued economic uncertainty restrained activity in several segments, most plant managers indicated moderate growth in capital spending plans. Growth in transportation activity picked up slightly, although several contacts cited driver shortages and higher contractor fuel costs as barriers to growth. Expectations for future sales were mostly positive, but capital spending plans among transportation firms were somewhat subdued. The majority of high-tech services firms reported solid growth in sales, but the pace of growth slowed somewhat from the previous survey. Several high-tech contacts noted higher activity in the energy and health care market, and future capital spending plans were generally positive.

Real Estate and Construction

Residential and commercial real estate activity increased in late February and March, and expectations were solid heading forward. Housing starts edged slightly higher, with several contacts in Nebraska noting increased demand due to the booming agricultural industry. Expectations for future homebuilding remained positive, and building materials were generally available. Sales at construction supply firms were stable, with some contacts noting increased business among multi-family and remodeling contractors, and expectations for future activity were favorable. Home sales rose markedly from the previous survey period and inventory levels fell, which contacts attributed to seasonal patterns, favorable weather, lower interest rates, and newfound optimism in the overall economy. Expectations for future home sales continued to strengthen, and home price levels improved slightly. Mortgage lending activity was positive and remained above year-ago levels, though contacts expected refinancing volume to slow somewhat as rates begin to rise. Commercial real estate activity continued to edge higher, and expectations for future sales were mostly positive. Vacancy rates dropped and were expected to fall further. Office prices and rents remained subdued but were slightly higher than a year ago, and expectations were largely flat. Several commercial real estate contacts in Oklahoma noted strong sales due to heavy activity in the energy industry, while a contact in Missouri expressed continued financing difficulties.

Banking

Bankers generally reported steady or stronger loan demand, stable or improved loan quality, and increased deposits. Overall loan demand was steady or improved. Most respondents reported stable to increased loan demand for residential real estate loans, while loan demand for commercial and industrial loans and commercial real estate loans remained steady. Loan demand was stable to weaker for consumer installment loans. Credit standards remained largely unchanged in all major loan categories, and the majority of respondents continued to report increased deposits. Most bankers reported stable or improved loan quality compared to a year ago, and every banker respondent believed the outlook for loan quality over the next six months would be steady or improving.

Energy

Energy activity grew solidly in late February and March, though the pace of growth slowed slightly from previous surveys. Contacts reported a sharp slowdown in natural gas drilling, with many noting a shift towards oil exploration. Natural gas prices reached decade-low levels in recent months, and most producers expected prices to stay low due to oversupply and mild weather. Crude oil prices climbed higher from the previous survey period, which many contacts attributed to continued Middle East conflict concerns. Contacts reported some shortages in equipment and labor, particularly for engineers and experienced technical support, and one producer noted continued delays in receiving permits for drilling on federal land.

Agriculture

Agricultural growing conditions improved since the last survey. Scattered rains increased soil moisture levels in many areas, although drought conditions persisted in some western areas of Kansas and Oklahoma. Winter wheat development was ahead of normal with most of the crop upgraded to good condition. Mild winter weather was favorable for calving and encouraged forage growth, reducing the need for supplemental feeding. Spring field work began early, and crop prices moved higher. Low cattle inventories trimmed beef production, and strong domestic and export demand pushed up cattle and hog prices. Operating loan demand declined as many producers used cash to buy crop inputs. Farmland values rose further and were expected to remain at record highs.

Wages and Prices

Prices rose slightly and were expected to continue to increase, but wage pressures were mostly contained outside of a few skilled positions. Retailers reported a slight uptick in prices with further increases anticipated. Manufacturing materials price increases continued and were expected to increase further, although fewer firms planned on raising selling prices. Higher prices for construction materials narrowed profit margins, as the majority of firms were unable to pass these costs through to customers. Transportation firms reported higher input prices, and increased food costs continued to impact profit margins and selling prices for hotels and restaurants. Wage pressures were still generally contained in most industries, although some firms reported continued difficulties in obtaining skilled labor.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy grew at a moderate pace over the past six weeks. Overall manufacturing activity continued to expand. Demand for business services rose slightly, and transportation services activity remained positive overall. The housing sector continued to improve modestly, and nonresidential leasing activity remained solid. Respondents said retail sales grew at a modest pace and auto sales strengthened. Financial firms noted a modest pickup in loan demand. Energy activity continued to be strong, although gas-directed drilling activity weakened. Drought conditions improved. Employment levels were steady to slightly higher. Prices were unchanged or somewhat higher, according to contacts. Outlooks across industries remain positive, but more respondents noted concern about higher energy costs.

Prices

Responding firms said prices held steady or increased, and several noted concerns regarding rising fuel costs. Food producers reported increases in selling prices to offset high input costs, and airlines noted higher fares. Intermodal transportation firms said they had increased prices in response to higher fuel costs, and parcel shipping firms noted plans to increase surcharges to offset rising fuel costs. Retailers and automobile dealers said higher gas prices had not significantly affected sales. Agricultural commodity prices declined since the last report.

The price of WTI averaged $105.95 per barrel during the reporting period. Natural gas prices fell from $2.50 per thousand cubic feet to below $2.20. Gasoline prices rose by 34 cents per gallon over the past six weeks, and the price of diesel rose by 20 cents. Prices of petrochemicals and plastics also increased since the last report.

Labor Market

Most responding firms said employment levels held steady since the last report, although several noted slight increases. Staffing firms said demand softened slightly in March, but direct hires were still strong. Staffing contacts also noted shortages of skilled workers in IT and accounting. There were scattered reports of small employment increases in the high-tech manufacturing, transportation manufacturing, metals, auto sales and airline industries. Accounting firms noted a pickup in temporary workers due to the tax season. Wage pressures remained minimal, although slight salary increases were noted by some legal, auto and high-tech manufacturing firms.

Manufacturing

Overall demand for construction related products increased since the last report, although a few respondents' outlooks have become slightly more guarded. A cement producer and a lumber firm noted improving demand in the residential sector, while a fabricated metals producer said private projects related to oil and gas, manufacturing and highway construction were driving the pickup in demand. Primary metals firms noted that commercial construction projects including hospitals, schools and government buildings were a factor behind improving demand, along with solid sales to truck and trailer manufacturers.

Respondents in high-tech manufacturing reported that orders continued to grow at a modest pace since the last report. According to contacts, key demand drivers continue to be mobile applications, cloud computing and automobiles. One contact noted that demand for DRAM memory remains weak relative to supply, while demand for flash memory and logic devices is generally good. Most respondents expect demand to continue to grow at a modest pace over the next three to six months.

Aviation equipment manufacturers said demand weakened during the reporting period. Contacts were less optimistic in their outlooks for the year, citing high energy prices and the bankruptcy of several service and maintenance companies that serve the airline industry. Food producers said sales activity increased over the past six weeks, and near-term outlooks were positive. Reports from paper manufacturers were mixed but overall suggested steady to slower growth in demand. Contacts expect moderate growth for the year.

Petrochemicals producers said planned maintenance outages have tightened capacity, constrained production and raised the price of ethylene. Capacity was reduced by closures during the recession, and new modern plants will not be on line for several years. The pass-through of higher ethylene prices has weakened export demand for petrochemical products including polyethylene. Gulf Coast refiners noted steady margins overall since the last report.

Retail Sales

Retail sales grew modestly over the comparable period a year ago and performed in line with expectations. According to some national retailers, the Eleventh District's strength relative to the nation declined as warm weather in the north and east prompted strong spring clothing sales in those regions. Contacts noted that consumer demand appears healthier, and most expect moderate sales growth for the year. Inventories are being managed closely.

Automobile sales showed strength in late February which continued through the first half of March. Contacts noted that customer concern over gas prices remains muted at this point, but they have seen more interest in smaller vehicles recently. The outlook for sales remains optimistic.

Services

Demand for staffing services softened slightly at the end of March, following solid activity earlier in the year. Still, orders for direct hires remained strong and shortages of skilled accounting and IT professionals were reported. Outlooks were positive as contacts expect demand to bounce back in the second quarter. Legal firms reported a slight pickup in demand for their services. Contacts said mergers and acquisitions and transactional service activity had surpassed expectations, and there is continued strength in demand for intellectual property, energy and some real-estate related legal services. Accounting firms reported a modest increase in overall activity and characterize this year's tax and audit season as unusually good.

Reports from transportation service firms were mixed. Intermodal firms reported an increase in cargo volumes buoyed by shipments of oil field supplies. Small parcel shipments increased, while air cargo volumes and railroad shipments declined during the reporting period. Airlines reported solid passenger demand over the past six weeks. Domestic air travel increased, while international air travel demand was flat. Contacts said customers remained price sensitive and were purchasing restricted discount fares. Airline contacts expect passenger demand to remain stable or improve in the near-term.

Construction and Real Estate

Housing demand continued to pick up over the past six weeks. Tight new home inventories led to a modest rise in construction activity. Sales activity rose and inventories fell in the existing home market. Some contacts expect lower inventories to impact prices positively in 2012. Apartment leasing activity remained robust since the last report.

Office and industrial leasing activity continued to improve. Contacts noted that the energy and high tech sectors were driving much of the demand for space. Sales of nonresidential investment properties were unchanged over the past six weeks. Respondents noted some trepidation among investors, even though capital is widely available. The one exception was apartment properties, which remain popular among investors according to contacts.

Financial Services

Financial firms reported a modest uptick in loan demand. National banks reported strength in middle-market lending and large corporate lending activity. Regional banks also noted improved sentiments, and several banks suggested energy-related activity remains robust. Outlooks are generally less pessimistic, and some outright optimistic, with an overall theme that “loan demand is slightly stronger.” The most optimistic contacts were large bank lenders or regional banks that expressed strength in renewed corporate lending. Loan pricing remains competitive. Outstanding loan quality continues to improve, and contacts continue to note fewer problem loans.

Energy

Contacts at energy-related service firms said demand and backlogs from oil-producing areas remained very strong over the past six weeks. Many respondents, however, were concerned about weaker than expected demand for gas-directed drilling and a related decline in demand for fracturing services and horizontal drilling services. While respondents said overall demand in Texas is still very strong, several noted that crews were being shifted from dry gas-producing basins such as the Barnett shale to oil-producing basins such as Permian and Eagle Ford. While such disruptions were expected to be temporary, some contacts had lowered expectations for 2012.

Agriculture

Rainfall continued to ease drought conditions in many parts of the District. West Texas did not receive much moisture, however, and the severity of drought there worsened over the reporting period. Prospects for 2012 crops are improved due to better soil moisture, and producers will have more flexibility with what to plant.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District continued to expand at a moderate pace during the reporting period of late February through the end of March. Despite higher energy prices, overall price pressures for final goods and services remained modest, as did wage gains. Sales of retail items and demand for business and consumer services rose further. District manufacturing activity increased on net. Demand was robust for agricultural producers but remained uneven for providers of energy resources. Activity in District housing markets strengthened modestly but remained lackluster on balance, and demand for nonresidential real estate was largely unchanged. Contacts from financial institutions reported small increases in overall loan demand and slight improvements in credit quality and availability.

Wages and Prices

Price inflation for most final goods and services remained subdued during the reporting period, with the notable exception of gasoline. While contacts noted an increase in the prices of oil and selected other commodities, resulting cost increases generally were absorbed in profit margins rather than pass-through to final prices. Restaurant prices were an exception, with notable increases reported. Looking ahead, contacts in general expect prices for their products to hold largely stable or increase slightly during the second half of the year compared with the first half.

Upward wage pressures were quite modest overall, held down by high levels of unemployment and limited demand for new workers. However, wage gains remained pronounced for highly skilled workers in information technology fields, and significant gains were also reported for experienced workers in some segments of manufacturing. The reports suggested that wage gains are likely to remain limited going forward, as most contacts plan to engage in only modest hiring for the foreseeable future.

Retail Trade and Services

Retail sales continued to improve. Discount chains reported modest increases in sales, while traditional department stores noted stronger gains, particularly in the luxury segments of the market. Demand continued to improve for retailers of home furnishings and major appliances. By contrast, sales remained largely flat for grocers. Sales of new automobiles continued to strengthen, with high gas prices spurring especially strong growth for fuel-efficient vehicles. Similarly, demand for used vehicles remained robust.

Demand for business and consumer services strengthened further on balance. Sales continued to expand at a moderate pace for providers of technology services, and contacts anticipate growth will pick up in the second half of the year. Demand has improved in the radio and television broadcasting industries. By contrast, demand for professional services was largely flat, as was demand for health-care services. Sales activity was reported to be up somewhat for restaurants and other food-service providers. Activity in the District's travel and tourism industry picked up further, with contacts in Hawaii and Southern California noting ongoing gains in visitor volumes and hotel occupancy rates.

Manufacturing

District manufacturing activity rose a bit on net during the reporting period of late February through the end of March. Makers of commercial aircraft and parts saw limited new orders, but an extensive order backlog kept production rates near capacity. Manufacturers of semiconductors and other technology products reported some firming in new orders and indicated that they expect demand growth to pick up further in coming months. Capacity utilization rates continued to hold largely stable for petroleum refiners as weak domestic gasoline demand was offset by strong foreign demand for distillate products. Production activity was largely unchanged for metal fabricators, but demand remained quite depressed for producers of wood products. Food processors saw solid growth in orders and sales.

Agriculture and Resource-related Industries

Demand for agricultural products and mined metals remained strong, while extraction activity of natural resources used for energy production was uneven. Final sales and orders were robust for a broad range of crop and livestock products, and recent precipitation has eased concerns in parts of the District about drought during the upcoming growing season. Contacts noted increases in the costs of some inputs, such as fertilizer. Expanding activity in the mining sector continued to be supported by high prices for a variety of precious metals and metallic elements used for specialized industrial purposes. Mild winter weather continued to tamp down demand for natural gas, prompting additional declines in extraction activity, while elevated price levels and robust foreign demand spurred further increases in oil extraction.

Real Estate and Construction

District home demand improved slightly but remained weak on balance, and demand for commercial real estate was largely unchanged. Sales of new and existing homes continued to improve modestly in certain areas of the District, although the pace remained quite lackluster overall. Furthermore, despite relatively low interest rates, contacts noted that tight financing terms more generally held down the pace of sales. With inventories of available homes still very high, new construction activity stayed at depressed levels and home prices remained largely flat. Demand for commercial real estate continued to be weak overall, as reflected in elevated vacancy rates and limited leasing activity for office and industrial space in many parts of the District. On the other hand, growth in the technology sector has led to rapid absorption of commercial space in certain locales, such as the San Francisco Bay Area and Seattle. As a result, increased construction activity for new office space is expected for these areas over the next twelve months.

Financial Institutions

District banking contacts reported that overall loan demand rose modestly since the prior reporting period, and credit quality and availability improved slightly. While businesses generally remained highly cautious about their capital spending plans, the volume of new commercial and industrial loans edged up as businesses continued to pursue targeted investments geared towards increasing productivity. On the consumer side, demand for credit was largely unchanged. Credit quality improved slightly, with reports indicating a general decline in loan delinquencies. Although lending standards have remained relatively restrictive for most types of business and consumer loans, contacts reported modest improvement in overall credit availability. The reports also indicated that competition among lenders has been creating downward pressure on rates and fees for well-qualified small and medium-sized businesses.