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Summary of Commentary on ________________________

Current Economic Conditions

By Federal Reserve District

December 2011

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICT

DECEMBER 2011

TABLE OF CONTENTS

Summary*

Contact reports from the twelve Federal Reserve Districts suggest that national economic activity expanded at a modest to moderate pace during the reporting period of late November through the end of December. Seven Districts characterized growth as modest; of the remaining five, New York and Chicago noted a pickup in the pace of growth, Dallas and San Francisco reported moderate growth, and Richmond indicated that activity flattened or improved slightly. Compared with prior summaries, the reports on balance suggest ongoing improvement in economic conditions in recent months, with most Districts highlighting more favorable conditions than identified in reports from the late spring through early fall.

Consumer spending picked up in most Districts, reflecting significant gains in holiday retail sales compared with last year's season, and activity in the travel and tourism sector expanded in most areas. Demand strengthened further for nonfinancial services, including professional and transportation services. Manufacturing activity generally continued to expand, although the pace of growth has slowed for selected subsectors such as technology products. Agricultural producers and extractors of natural resources reported generally robust conditions. Activity stayed sluggish in residential real estate markets, and conditions in commercial real estate markets remained somewhat soft overall but showed signs of ongoing improvement in several Districts. Reports from financial institutions generally indicated a slight uptick in loan demand by businesses, along with improvements in overall credit quality.

Upward price pressures and price increases remained quite limited for most categories of final goods and services, as the effects of prior increases in the costs of selected inputs have eased. Upward wage pressures were modest overall, although a few Districts noted substantial compensation increases for workers with specialized skills in selected sectors and regions.

Consumer Spending and Tourism

Reports on consumer spending were favorable in general. Most Districts reported that holiday retail sales were up noticeably over last year's season, with New York and Dallas describing sales as "brisk" and "robust," respectively. Consumer spending and confidence generally were characterized as firmer than in recent reporting periods, although Kansas City reported that spending softened. Items

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* Prepared at the Federal Reserve Bank of San Francisco and based on information collected on or before December 30, 2011. This document summarizes comments received from business and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

identified as the strongest holiday sellers by various Districts included consumer electronics and jewelry, and Chicago noted that luxury items in general sold well during the holiday season. By contrast, many Districts reported weak sales and excess inventories of warm clothing, due to unusually mild weather. Retail inventories more broadly were reported to be at or near desired levels, consistent with retailers' sales expectations. Boston, New York, and Minneapolis noted exceptional growth in Internet sales for selected items. Sales of new automobiles continued to pick up in most Districts. Among the more favorable reports, Atlanta noted that the pace of auto sales in November and December was "the strongest in over two years," and strong demand and sales were reported as well by New York, Philadelphia, Cleveland, and Minneapolis.

Reports from most Districts pointed to solid gains or high levels of travel and tourist activity, with pickups evident in both the business and leisure segments. Tourism activity was reported to be above the levels from twelve months earlier by Boston, New York, Richmond, and Atlanta, and Boston contacts expect double-digit growth in hotel revenues in 2012. By contrast, Minneapolis reported that tourist activity was down because limited snowfall has stymied outdoor activities such as skiing and snowmobiling, while Kansas City reported a decline because winter storms hampered some tourist activity. Business travel activity also has expanded of late and is above levels from twelve months earlier, according to Atlanta and San Francisco.

Nonfinancial Services

Demand generally strengthened further for nonfinancial services. Providers of professional and business services such as consulting, advertising, engineering, and legal services expanded their activities according to Boston, Richmond, St. Louis, and Minneapolis. Sales of technology services to businesses and consumers grew further, according to Minneapolis, Kansas City, and San Francisco, although the pace of growth slowed from earlier in 2011. Providers of temporary staffing services saw strong and rising demand in the Philadelphia, Cleveland, and Richmond Districts but below-average seasonal hiring in the Chicago and Dallas Districts. Reports from the health-care sector generally pointed to growth as well, with Cleveland, Atlanta, Chicago, and St. Louis highlighting construction activity and bank lending aimed at health-care providers. The exception to growing demand for health-care services was San Francisco, which reported an ongoing decline in hospital admissions. Demand for shipping and transportation services generally expanded. New York and Atlanta reported a significant increase in shipping tonnage by truck, and Dallas noted a broad-based increase in shipments by rail. Atlanta reported that port activity was up over twelve months earlier due to "notable strength in exports," while Richmond reported a decline in port activity that was largely attributed to reduced imports. Air travel was above year-ago levels in the Atlanta District but unchanged over the past six weeks in the Dallas District.

Manufacturing

Manufacturing activity expanded in most Districts, generally continuing its steady overall expansion or, in the case of Atlanta, reversing a slowdown in prior periods. For the sector as a whole, further growth or improved conditions were reported by almost all Districts, except for Cleveland, Richmond, and Dallas, which reported that activity was largely stable or mixed, and Kansas City, which noted a slight decline. The strongest reports came from subsectors such as heavy equipment manufacturing and steel, for which demand has been boosted by robust growth in the energy, agricultural, and auto manufacturing sectors. Reports from Cleveland, Richmond, Atlanta, Chicago, and St. Louis confirmed vibrant activity for auto manufacturers, primarily for domestic makes. By contrast, demand remained somewhat weak for firms in housing-related subsectors, such as a door manufacturer in the Richmond District, furniture manufacturers there and in the St. Louis and San Francisco Districts, and makers of lumber and wood products in the San Francisco District. Demand for computers and related electronic components rose further, according to Kansas City, Dallas, and San Francisco. However, the pace of growth has slowed significantly from earlier in 2011, and Boston noted declining sales of semiconductors, mainly due to weaker demand from Asia. According to Dallas and San Francisco, aircraft makers saw further demand increases. Those Districts also noted weak domestic demand for refined petroleum products that was largely or completely offset by robust foreign demand. Demand grew smartly for food producers in the Philadelphia and Dallas Districts, but in the Kansas City District food processing was one of the weakest performers within the manufacturing sector. Export sales of assorted manufactured products generally performed well according to Atlanta and Chicago, although slower economic growth in China and Europe held back sales for some manufacturers.

Cleveland reported that capacity utilization remained below normal in most subsectors, with the notable exception of steel producers, who were operating at or near normal levels. Similarly, Chicago noted that some auto suppliers appear to be approaching capacity constraints, which may limit further production increases in the near term. Atlanta reported that recent flooding in Thailand was likely to exert modest restraint on auto production. Ongoing capital investments and increases in capacity were reported for various manufacturing concerns in the St. Louis and Minneapolis Districts and for an auto producer in the Richmond District.

Real Estate and Construction

Activity in residential real estate markets largely held steady at very low levels, with the exception of further increases in the construction of multifamily residences. The pace of single-family home sales remained quite sluggish throughout the country, although the Dallas District reported a modest increase over the prior reporting period. Some Districts, such as Boston and Atlanta, noted that home sales exceeded levels from twelve months earlier, but mainly because the earlier levels reflected a substantial drop following the expiration of the homebuyers' tax credit in mid-2010. Prices were largely stable on a short-term basis in most areas but in many instances were below their levels from twelve months earlier. Extensive inventories of distressed properties were reported to be a source of price restraint in the Boston, Richmond, Chicago, and San Francisco Districts. Construction of single-family homes remained at depressed levels in most areas and fell further in some, such as the Philadelphia, St. Louis, Minneapolis, and Kansas City Districts. However, Cleveland reported that activity improved during the past couple of months. In contrast to the soft market for single-family residences, the market for rental units tightened in some areas such as the New York and Richmond Districts, and construction of multifamily residences rose in the Boston, Philadelphia, Chicago, Kansas City, and Dallas Districts.

Demand for nonresidential real estate remained somewhat soft overall but improved in a number of Districts. Vacancy rates and other indicators in markets for office space were largely unchanged in the major metropolitan markets in the Boston, Philadelphia, Cleveland, Richmond, and St. Louis Districts. By contrast, New York reported that demand for office space "picked up in late 2011," causing vacancy rates to edge down and asking rents to rise. Minneapolis, Kansas City, Dallas, San Francisco, Atlanta, and Chicago all reported stronger demand for commercial real estate compared with earlier in 2011, and the latter two Districts also noted a pickup in nonresidential construction activity. Cleveland and Chicago reported that the strongest demand and most extensive construction activity has been for industrial and health-care facilities, while Minneapolis highlighted growing demand for industrial space and San Francisco stressed growing demand emanating from the information technology sector.

Banking and Finance

Lending activity edged up overall, primarily due to increased loan demand by businesses. Most Districts that commented on lending activity indicated little or no change in overall loan demand, but the remaining Districts identified increases rather than decreases. New York reported a pronounced increase in demand for commercial mortgages, and Cleveland also noted increased demand in this category. Both Dallas and San Francisco noted a slight uptick in commercial and industrial lending. Consumer lending was largely flat compared with the prior reporting period, although auto loans rose in Cleveland. New

York, Philadelphia, and Cleveland reported demand growth or continued strength for refinancing of residential mortgages.

Lending standards were largely unchanged across all lending categories. However, New York reported slight tightening for commercial and industrial loans. Moreover, a few reports highlighted that small businesses continued to struggle with credit access through banks. In the Atlanta District, some small businesses have turned to nonbank institutions for financing, and in the Chicago District some manufacturers have been financing loans to their suppliers from retained earnings. Credit quality improved in many Districts: New York reported a decline in delinquency rates for all loan categories, while Philadelphia, Richmond, Kansas City, Dallas, and San Francisco all reported general improvement in loan quality.

Agriculture and Natural Resources

Demand for agricultural products was strong during the reporting period, but growing conditions and input prices were mixed. Farm income and profits were reported to be at very high levels by Chicago and Kansas City, enabling many farmers to repay loans and expand their operations, and San Francisco reported further sales growth for a variety of agricultural products. Rising foreign demand was noted as a source of strength for livestock sales in the Atlanta and Dallas Districts and for dairy and meat products in the Chicago District. Growing conditions were somewhat mixed across areas. Farmers and livestock producers in the Atlanta and Dallas Districts have been struggling with ongoing droughts, which have required costly responses such as supplemental feeding of livestock. While timely rains eased drought conditions somewhat in the Dallas and Kansas City Districts, wheat farmers in the latter are hoping for more protective snow cover for the winter crop’s dormancy period. In addition, high or rising prices for some inputs were noted by Chicago and Kansas City, tempering farmers’ profit expectations for the coming year.

Demand and extraction activity rose further for producers of natural resource products. Energy extraction has been on the upswing. Atlanta reported that companies have been expanding their workforces and increasing their production capacity and exploration plans in the Gulf of Mexico. Minneapolis and Kansas City reported that oil and gas exploration and extraction activity were well above their levels from twelve months earlier, and Dallas noted that a high level of activity is expected to resume in early 2012 following a year-end seasonal lull. Minneapolis and San Francisco reported expansion of mining capacity and activity for a range of industrial and precious metals.

Prices and Wages

Upward price pressures and price increases were very limited during the reporting period. Reports from various Districts, including Boston, Atlanta, and Chicago, indicated that upward price pressures from rising commodity and input prices have eased substantially, with Boston noting that “even food prices have ceased rising.” Atlanta reported that firms have limited pricing power in general, and San Francisco pointed to intense supplier competition as a factor holding down prices. Similarly, Kansas City reported a recent uptick in input prices but noted that few manufacturers passed these increases on to the prices of their finished goods.

Wage pressures remained modest overall. The combination of limited permanent hiring in most sectors and numerous active job seekers has continued to keep a lid on general wage increases. However, reports from a few Districts highlighted significant supply constraints and in some cases large compensation increases for workers with specialized skills in selected sectors, including the energy sector in the Dallas District and the technology sector in the San Francisco District. On a related note, Minneapolis reported that employers have increased relocation pay for employees willing to settle in parts of that District where worker availability is limited. Increases in the costs of employee health benefits continued to put significant upward pressure on overall compensation costs, although some employers in the Philadelphia District reported significant rollbacks from past increases.

FIRST DISTRICT – BOSTON

Most business contacts in the First District report modest revenue growth from a year earlier. Retailers are somewhat more positive than in preceding months, with 2011 sales projected to come in higher than 2010. Manufacturers' reports are similar to the last round; most firms cite somewhat slower sales growth than earlier in the year, while a couple of semiconductor-related firms saw sales fall off (they believe temporarily). Commercial and residential real estate markets remain weak, but are not expected to deteriorate further. Advertising and consulting firms, by contrast, say business improved noticeably between the third and the fourth quarters, bringing a strong 2011 to a close. Some firms are hiring, but modestly; wage increases, if occurring, remain moderate. Price pressures continue to ease. Most contacts expect a continuation of current modest growth trends, notwithstanding uncertainties related to Europe and U.S. budget deliberations.

Retail and Tourism

As in mid-November, retail contacts for this round report a slight improvement in business conditions from earlier in the year. Comparable-store sales in the fourth quarter for most contacts range from flat to up 2 percent from a year earlier; one retailer saw a drop in in-store foot traffic for December but a tripling in Internet sales. One is projecting annual sales for 2011 will be down about 5 percent, but this represents an improvement compared with sales declines of 10 percent in the first half of the year. Contacts with a web-based presence report sales strength in this area, and some are adding staff and making investments to better service customers buying online. Planned salary increases for 2012 range from 2 percent to 3 percent for merit-related raises; none of the retail contacts is planning to offer a cost-of-living adjustment.

The travel and tourism sector continues to project a 5 percent to 8 percent increase for 2011 over 2010. Data from the first week of December show strong performance. The industry foresees a robust 2012, taking heart from Q1 projections based on advance bookings. Preliminary predictions are that 2012 hotel revenue per available room will increase 10 percent to 12 percent over 2011. Restaurant sales, while much harder to project, are estimated to grow 3 percent in 2012 over 2011, an improvement over the 1.5 percent estimated for 2011 over 2010.

Manufacturing and Related Services

Not much has changed since our last manufacturing report in mid-November. Most contacts report growing sales and some are hiring, albeit in small numbers. Two contacts in the semiconductor industry report a substantial weakening of business in the summer and fall but both seem optimistic that the decline is transitory. Overall, the mood remains cautious.

Of the 13 manufacturing contacts in this cycle, nine report higher sales, two cite flat sales and two declining sales. The two firms with falls in sales are in the semiconductor business and both depend heavily on Asia for demand. Of these two, a manufacturer of analog semiconductors says orders peaked in the June quarter and bottomed out in September; since sales follow orders with a lag, sales declined in the fourth quarter, ending an 11-quarter streak of quarter-on-quarter sales growth. The two contacts differ on the source of the problem, with one attributing it to China-specific issues and the other arguing that the underlying causes are broad-based.

For contacts reporting higher sales, growth recently is moderate compared to the rapid growth they experienced in the last few years. One firm said that while sales were likely to be up about 15 percent for the year, the fourth quarter would clock in at only about 5 percent. Europe is cited as a problem, although two contacts say that they have yet to see evidence of a recession in northern Europe. One contact at a medical equipment supplier says that debt problems in Europe do not appear to have affected the health care sector; another contact at a large diversified manufacturing firm argues that there is an incipient credit crunch in Europe.

On pricing, the complaints about escalating input prices have more or less stopped; contacts say even food prices have ceased rising. A year ago, virtually every contact talked about high commodity prices and, in some cases, shortages, but now the only comments relate to limited pricing pressure.

Five contacts report that they are hiring, eight report flat to maybe a small decline and none reports any significant staff reductions. Several contacts mention that they are having trouble finding qualified staff, but some have come up with more creative ways to bring in the right people. Firms continue to devote resources to capital expenditures. None reports any problems raising money to pay for needed investment and, in fact, many are able to finance all capital spending with retained earnings.

The outlook remains guarded; general concerns about "macroeconomic uncertainty" remain. The two firms reporting lower sales are fairly optimistic that the dip is transitory. In general, firms with greater exposure to Europe are more concerned than firms focused on the domestic market.

Selected Business Services

Consulting and advertising contacts in the First District report strong growth in the fourth quarter after a generally weaker third quarter. Marketing and advertising contacts indicate that 2011 growth has averaged 8 percent to 9 percent (annual rate), driven largely by an increase in large orders from large clients. Strategy and business consulting contacts report low double-digit annualized growth, driven by strong private equity business, mergers and acquisitions, and corporate consulting. Contacts note that many clients have a lot of cash and are becoming more confident that – despite risks – the U.S. economy will "muddle through" and thus are willing to spend. In addition, consulting firms have seen a shift in demand towards services that can be directly tied to the bottom line such as sales and process efficiency rather than strategy and management.

The majority of consulting and advertising contacts reports minimal increases in the prices they charge, held down by both competitive pressures and modest cost increases. Compensation increases are generally in the mid single digits and contacts report steady or growing profit margins. By exception, two contacts raised prices by 5 percent to 10 percent because of strong demand for their services.

Hiring activity continues to be mixed. Two consulting contacts report strong 2011 employment growth, while three firms kept employment flat and one continued a year-long downsizing process. The two firms reporting job growth expect hiring to remain strong (about 10 percent) in 2012, while a marketing firm plans to increase employment modestly, and the other firms expect flat 2012 employment. Firms that increased employment did so to keep up with a growing workload, while firms downsizing in the third or fourth quarter emphasized cost controls.

All respondents are more optimistic now than when contacted in the third quarter, with the exception of one firm that has done exceptionally well all year. The improved outlook is mostly due to the strong fourth quarter indicating that the third quarter was only a temporary rough patch.

Commercial Real Estate

Commercial leasing activity across the First District was flat to down in recent weeks, in line with typical seasonal patterns. In Hartford, leasing activity saw a modest seasonal slowdown in December and business sentiment held steady. Activity slowed modestly in Providence as well, also in line with year-end expectations, but deals in the works as of the previous report moved forward as expected and pending deals are set to boost absorption of Class A office space in the first quarter of 2012. Greater Portland also registered a modest seasonal leasing slowdown in December, but saw a decline in the office vacancy rate on a year-over-year basis, to 10.8 percent from 11.2 percent. Boston's leasing market held roughly steady, with modest positive absorption in suburban corridors as well as in the sought-after neighborhoods of Back Bay and East Cambridge. Rents remain flat for downtown office space on lower floors of buildings but are rising for upper-floor space in prime high-rise structures. Despite positive absorption in 2011, one contact says Boston's downtown office vacancy rate remains undesirably high at about 16 percent.

Construction activity remains limited across the region, with the ongoing exception of multifamily construction in greater Boston. The lack of speculative office construction is attributed to the fact that building costs continue to exceed expected rents. The investment sales market remains active in Boston as prices signal an ongoing willingness of buyers to accept low rates of return for prime properties. A Portland contact predicts an increase in sales activity in that market in the coming months as borrowers seek to take advantage of very low mortgage interest rates.

The outlook among contacts is unchanged since the last report, with forecasts calling for modest improvements in office fundamentals in 2012, roughly on par with the experience of 2011. While some see upside potential in office rents, downside risks are also noted, such as possible closures in the retail sector and ongoing political gridlock.

Residential Real Estate

Sales figures in the New England single-family home and condominium market increased in November compared to a year ago, with the growth largely reflecting lackluster year-earlier sales numbers following the expiration of the tax credit in mid-2010. Contacts reiterated concerns about weak demand, citing poor labor market conditions and stricter lending requirements. A contact from Greater Boston contrasts the local market with the rest of the New England region, saying that the Greater Boston area showed possible signs of improvement due to strengthening employment conditions in the city. Meanwhile, throughout New England, the median sale price of homes and condos fell in November compared to a year ago; contacts attribute the declines to a rise in sales of distressed properties. The price decreases were uneven across the region, with Maine slipping by less than 1 percent and Connecticut prices falling by over 10 percent. The median price of condos fell more sharply than home prices.

The outlook remains largely the same as in previous reports. Contacts expect sales activity to remain slow in the coming months, but believe prices will stabilize in the region. They do not expect further weakening in the market but also do not anticipate significant recovery in the near term.

SECOND DISTRICT--NEW YORK

The Second District's economy has grown at a somewhat faster pace since the last report, led by brisk holiday-season spending. Labor market conditions, as well as prices, have remained generally stable. Manufacturers report modestly improved general business conditions and steady employment since the last report, along with increased optimism about the near-term outlook. Retailers generally characterize holiday season spending as robust, particularly in the final days before Christmas and right after. Auto dealers report that sales have remained strong since the last report. Tourism activity has held steady at a high level. Conditions have generally remained stable in the housing market, though the rental market has continued to improve. Commercial real estate markets have been stable to moderately stronger in late 2011. Finally, bankers report increased loan demand, steady to somewhat tighter credit standards, and lower delinquency rates across the board.

Consumer Spending

Retailers generally characterize holiday-season spending as strong and most report that sales were on or above plan. A trade association survey of retailers across New York State points to robust spending, particularly in the final week before Christmas and on the day after; most contacts indicated that sales were at least as strong as in 2010, led by electronics—particularly video games and consoles. One large retail chain reports that November-December sales were above plan and up moderately from a year earlier, while another major chain indicates that sales were down from 2010 levels but still roughly on plan. Both contacts note that unseasonably mild weather hampered sales of outerwear and other seasonal apparel. However, two major malls in upstate New York say that mild weather—along with brisk demand from Canadian shoppers—contributed to strong sales in November and early December. A number of contacts also note exceptional strength in on-line sales, with some reporting year-over-year gains in excess of 40 percent. Retail prices are reported to be generally stable.

Auto dealers in upstate New York report that sales activity continued to be robust in November and early December, running well ahead of comparable 2010 levels—particularly for used vehicles. Inventories have risen along with sales but remain tight for some of the more popular models. Wholesale and retail credit conditions remain favorable.

Consumer confidence has rebounded from its October lows. The Conference Board's survey of residents of the Middle Atlantic states (NY, NJ, PA) shows consumer confidence rising sharply in both November and December, back up to the levels seen last spring. Results from Siena College's November survey of New York State residents (latest available) shows consumer confidence rebounding moderately. Tourism activity has held generally steady at a strong level since the last report. New York City hotels report that occupancy rates continued to run at just over 85 percent in November and the first few weeks of December—up moderately from a year earlier. Room rates were up 2-3 percent from a year earlier, and total revenues per room were up about 6 percent, though total revenues in the local hospitality industry are up considerably more due to an increased number of hotel rooms. On a more negative note, though, Broadway theaters report that attendance continued to run roughly 5 percent below year-ago levels in December, while revenues fell below comparable 2010 levels for the first time since the August hurricane.

Construction and Real Estate

Residential rental markets continue to strengthen, while real estate sales have shown little change since the last report and new development activity continues to be sluggish. New York City's rental market remains tight: rents continue to rise, as the inventory of available units remains lean. Manhattan co-op and condo prices were little changed in the fourth quarter, while sales activity slowed from its fairly brisk third quarter pace. Market conditions were reported to be similar in Brooklyn but a bit softer in the other boroughs and on Long Island. On a more positive note, one industry expert in New Jersey sees improved fundamentals in the housing market and foresees a pickup in market conditions in 2012. Real estate contacts in other parts of the District also note some increase in optimism among developers.

Commercial real estate markets have been steady to somewhat stronger since the last report. New York City's office market has picked up in late 2011, with office vacancy rates edging down and asking rents rising. There were also modest signs of improvement in Westchester and Fairfield counties and in the Albany area, whereas office markets in northern New Jersey and western New York State appear to have slackened modestly. Industrial leasing markets were generally steady overall: conditions firmed in Long Island but showed some signs of softening across upstate New York; in the rest of the District, conditions were little changed.

Other Business Activity

A major New York City employment agency reports that hiring activity has slowed somewhat since October, particularly in the financial services sector, but notes that it is difficult to gauge the underlying climate during this typically slow season. Contacts at major retail chains indicated that they hired more seasonal workers this year than last. More broadly, both manufacturers and service-sector firms continue to report that employment levels at their firms remain steady, on average, though a growing number of manufacturing contacts across New York State plan to hire more workers in the months ahead.

Manufacturers across New York State report that general business conditions improved since the last report, and respondents have grown considerably more optimistic about the near-term outlook. Both manufacturers and other firms report that their selling prices remain flat, though a growing number expect to raise prices in the months ahead. Separately, a contact in the trucking industry reports that shipping tonnage (volume) has picked up considerably in recent months and was up 6 percent from a year earlier in November.

Financial Developments

Bankers report an increase in demand for all loan categories except consumer loans, where demand held steady. The increase was most prevalent for commercial mortgages where four times as many bankers reported rising than falling demand. Respondents also indicate widespread increases in demand for refinancing. Bankers' responses suggest some tightening of credit standards for commercial and industrial loans, but no change for the other loan categories. No banker reported an easing of standards in any category. Respondents note a decrease in spreads of loan rates over costs of funds for all loan categories. Bankers also indicate widespread decreases in the average deposit rate. Delinquency rates are reported to have decreased for all loan categories. The improvement was most prevalent in commercial and industrial loans, where nearly three times as many respondents reported lower than higher delinquencies.

THIRD DISTRICT – PHILADELPHIA

Overall business activity in the Third District has continued to grow modestly since the previous Beige Book, with various sectors experiencing typical seasonal patterns – positive and negative. Since the last Beige Book, manufacturing activity has continued to grow modestly with some signs of a seasonal slowdown. Retail sales overall generally increased for the holiday season, meeting seasonal expectations. Motor vehicle dealers experienced further strong sales growth and strong pricing power, overcoming some of the typical seasonal drag. Third District banks have reported slight growth in loan volume outstanding since the last Beige Book. New home construction slowed further, driven by seasonal trends and falling prices for existing homes. Commercial real estate contacts continued to report slow growth year-over-year, although anticipated seasonal slowing has been a factor since the last Beige Book. Service-sector firms reported generally modest growth. Price pressures remained contained for most sectors, with little change from the last Beige Book.

The general outlook seems to have improved for most firms since the last Beige Book. Manufacturers anticipate rising shipments and orders during the next six months. Retailers expect slightly stronger sales, and auto dealers are increasingly confident that pent-up demand will carry well into the spring selling season. Banking, real estate, and service-sector firms continue to plan for slow growth in 2012. Many have voiced concerns over the ongoing lack of a housing recovery, the threat from Europe's economic woes, and the indecision on numerous federal budget issues.

Manufacturing. Since the last Beige Book, Third District manufacturers have reported further modest increases in new orders and shipments. Gains were widespread among the makers of industrial machinery and equipment, and of food products. Similarly, a supplier to the broad industrial market confirmed continued growth but noted some softness of a seasonal nature. Some makers of lumber and wood products and of electrical machinery reported seasonal slowing. However, one electrical equipment firm logged the worst month of orders in five years. Several contacts attributed additional slowing to end-of-year inventory adjustments. Contacts in primary metals reported mixed results dependent upon their firm's market orientation, for example, to Europe or to the domestic auto industry.

Most Third District manufacturers remain split between expecting business conditions to improve during the next six months and expecting conditions to stay the same. This overall positive tendency has pervaded more sectors since the last Beige Book. However, the currently low seasonal demand, cited by many firms, may be a large factor in the anticipation of near-term gains. Manufacturing contacts continued to cite weak housing markets as a drag, Europe's woes as a threat, and rising auto demand as a positive factor. Expectations of capital spending and future hiring also remain positive but have moderated since the last Beige Book.

Retail. Third District retailers reported strong holiday sales in November and positive, but softer, sales in December. An outlet operator recounted that the typical budget-conscious, discount-driven consumer shopped early, then faded somewhat. The longer shopping season and added store hours produced greater overall sales volumes but also increased the wage bill for hourly workers. Profits for the season were maintained by closely watching inventories and markdown levels. Unseasonably warm weather dampened sales of cold-weather goods, but "rain boots sold well." Prospects beyond this holiday season are expected to follow recent trends with high-end, online, and outlet market segments attracting the most consumer spending.

Auto sales remained unseasonably strong through November and December, according to a Third District industry contact. With still a little more demand than supply, dealers continue to offer less discounting and earn better grosses. Also, pent-up demand remains strong. An industry contact indicated that dealers may begin hiring if robust sales continue into the spring season.

Finance. Overall loan volumes continued to expand slightly in the Third District since the previous Beige Book; however, many bankers reported difficulty maintaining loan volumes. Some reported turning down deposits for lack of sufficient lending opportunities. The strongest loan growth continued to emerge in home mortgages, including refinancings. Commercial real estate and C&I lending were flat. Credit quality continued to improve somewhat. Third District bankers expressed several concerns, including Europe's economic problems, a lack of recovery in the housing market, uncertainty and a lack of confidence with Washington, and uncertainty over the renewal of federal contracts.

Real Estate and Construction. Residential builders are "glad to have 2011 behind" them. Builders reported that the year closed with sales activity slowing somewhat more than seasonal trends would predict due to lack of confidence, as existing home prices continued to fall in most markets. Some of the activity reported in the last Beige Book dissipated, as builders were unable to close on contracts. New construction activity continues to shift from the single-family market toward the multifamily market. Some builders are planning for growth in 2012, even some hiring. However, their plans assume an increase in market share and an expectation that some competitors will not endure a seventh consecutive year with little or no growth.

During a seasonally slow period for most nonresidential real estate activity, contacts have reported no significant changes since the last Beige Book. The seasonal lull should generate a little pickup in leasing in early 2012. The sudden announcement in early December of an immediate refinery closing, not anticipated until early 2012, sent hundreds of workers home, including construction workers with jobs associated with facility maintenance and repair. A few weeks later another refinery, currently in the process of restarting, announced expansion plans. New construction and renovation plans remain mostly limited to institutional, life sciences, multifamily, and warehousing sectors in select markets. A portion of the new construction, especially for warehousing, represents market shifts among regions, rather than net overall market growth. The overall outlook for demand of nonresidential space is for continued slow growth.

Services. Third District service-sector firms have continued to report modest growth since the last Beige Book. A staffing firm noted that firms appear busier, based upon an end-of-year uptick in short-term contracts to provide coverage for vacations and extra holiday business – a pattern not observed since the recession began. The overall trend toward temporary or contract basis for new placements, rather than permanent, full-time hires, remains unchanged. Contacts indicated that financial services will face challenges in 2012, and many sources expressed concern for defense-related activity in the wake of recent and ongoing federal budget indecisions. The majority of service-sector firms anticipate slowly improving growth rates through 2012.

Prices and Wages. On balance, price levels have changed little since the previous Beige Book. Auto dealers and freight shippers still command favorable pricing power. Several manufacturing firms recently raised prices and have yet to observe any pushback from their customers. Retailers and homebuilders continue to report very tight margins. Builders are worried about ongoing closures along their supply chain as the recession in construction continues. Substantial cost increases are anticipated when a recovery emerges and triggers demand for more building materials. Although exceptions exist within specific submarkets, concessions are still expected of many bankers, builders, and leasing agents. Most firms reported no significant upward wage pressure. While most firms are anticipating greater increases in health benefit costs, a few have indicated a significant rollback from last year’s large rate hike.

FOURTH DISTRICT – CLEVELAND

The economy in the Fourth District grew at a slow pace during the past six weeks. Manufacturers reported that new orders and production were stable. Single-family home construction improved slightly, while nonresidential builders saw a drop-off in inquiries and weak backlogs. November retail and motor vehicle sales were little changed from the prior month. Activity in shale gas drilling and production expanded. Freight transport volume slowed along seasonal trends. The demand for credit by businesses and households was characterized as either steady or increasing slightly.

Labor market reports indicated that hiring remains at a low level, while recruiting high-skilled workers was difficult. Staffing-firm representatives saw growth in the number of new job openings, with vacancies concentrated in healthcare and energy. Wage pressures were largely contained. Other than a boost in steel prices, upward pressure on raw material prices has abated.

Manufacturing. New orders and production at District factories were mainly stable during the past six weeks. Any declines were attributed to seasonal factors or lessening demand from European and Chinese customers. Compared to year-ago levels, the majority of our contacts noted a moderate improvement in output. However, they are cautious in their outlook and expect little change in demand during the upcoming months. Most steel producers and service centers reported that shipping volume was steady along seasonal trends, although two of our contacts noted an unexpected pickup for this time of year. Demand is being driven by autos, energy, and heavy equipment industries. Steel representatives are hopeful about the first quarter of 2012, and most expect to see at least modest growth. District auto production showed a substantial decline during November on a month-over-month basis, more so for foreign nameplates. Most of the decline was attributed to supply chain issues. Year-over-year, domestic auto producers' output rose significantly, while their foreign counterparts posted moderate declines.

Capacity utilization was below normal at most factories, while steel producers saw their utilization rates at or near normal levels. Inventories were in line with sales for the majority of our contacts. Manufacturers told us that their capital outlays have reached targeted levels for the year. Only a few respondents indicated that they expect to significantly raise their capital budgets for 2012. Other than steel, raw material prices were steady during the past few weeks. We heard several reports about steel producers raising their prices and the possibility of a second round of increases early in 2012. New hiring remained at a low level. Those adding to payrolls found it difficult to recruit professional and high-skilled production workers. Wage pressures are contained.

Construction. Single-family home construction was described as better during the past couple of months, with sales contracts distributed across all price-point categories. Builders were slightly more optimistic in their outlook, but they are not expecting an industry turnaround in the near term. We heard a report that homebuilders' inventories are on a decline in some parts of the District, which should help boost new-home construction during 2012. Not much change was seen in the list prices of new homes, though two of our contacts noted a greater use of discounting. A few subcontractors attempted to raise billing rates, but they were unsuccessful. Employment and wages were stable.

Activity in nonresidential construction for small to medium-size builders was steady, although the number of inquiries has fallen off during the past few weeks. The biggest challenges facing nonresidential contractors continue to be financing projects and adding to backlog. Construction contracts were primarily with manufacturers and health-care providers. Builders are uncertain about future prospects. One contractor noted that he does not expect a major pick-up through at least the first half of 2012. On balance, building material prices were stable. The number of reports about sub contractors going out of businesses rose, while general contracting payrolls showed a slight decline.

Consumer Spending. Retailers reported that November sales were stable or slightly higher relative to October sales. According to a few of our contacts, a milder than expected autumn was holding back purchases of cold weather-related items, while purchases of electronics and home furnishings were better than expected. On a year-over-year basis, results were mixed. Sales for the first quarter of 2012 are generally expected to improve over prior-year levels, mainly in the low- to mid-single digits. Some retailers expressed caution about 2012 given the fragility of household balance sheets. Upward pressure on supplier costs has abated during the past six weeks. Inventories were characterized as good except for apparel items, which are higher than desired. Capital budgets were on plan. Most of our contacts said that outlays during 2012 will not change appreciably from this year's levels and that outlays will be used mainly for technology enhancements and remodeling. Other than seasonal hiring, there was little change in employment at existing stores.

Auto dealers reported that new-vehicle sales during November remained strong. On a year-over-year basis, sales volume was largely higher. Dealers saw robust demand for all vehicle types. A few dealers noted that their inventories are now adequate. Others said that inventories are low, which they attributed to brisk sales. The outlook for 2012 is somewhat tentative, mainly because of uncertainty. Purchases of used vehicles have fallen off slightly, due in part to a supply shortage. We heard reports about some easing of credit restrictions, while interest rates were very competitive. Dealers are investing in manufacturer-mandated facility upgrades and imaging programs. The few dealers looking to hire reported that it is difficult to find qualified candidates, especially sales representatives and service technicians.

Banking. Demand for business loans was characterized as either stable or increasing. Requests are being driven by commercial real estate, notably multifamily housing, and healthcare. On the consumer side, our contacts described installment loan activity as flat or up a bit. Auto lending (direct and indirect) and home equity lines of credit continued to show strength. Bankers said that they have not seen a bump up in the use of credit cards during the holiday shopping season. Interest rates for business and consumer credit were very competitive. Activity in the residential mortgage market has been solid in the fourth quarter, driven by low interest rates. Most applicants are looking to refinance. No changes were made to loan application standards. Delinquencies were steady or declined across most loan categories; any stress was found in real estate portfolios and credit cards. Overall core deposits grew, although a few bankers commented that growth is being driven by business customers. Payrolls were stable, with little hiring expected in the near term.

Energy. Conventional oil and natural gas production was mainly steady during the past few weeks, with little change expected in the upcoming months. Our contacts were uncertain about future gas drilling due to eroding natural gas prices. Well-head prices for oil were flat, but remained elevated. Activity in shale-gas extraction expanded. Coal output was stable, though it may decline during 2012 due to an easing in demand for thermal and metallurgical coals from European customers and domestic power producers. The latter was attributed to abundant supplies of low-priced natural gas and regulatory compliance issues for coal-fired generators. Spot prices for several types of coal have fallen off. Capital outlays are on target, with moderate increases projected by oil and gas companies in the upcoming months. The cost of production equipment and materials was generally flat during the past six weeks. Energy payrolls held steady. A few small oil and gas producers are beginning to experience wage pressures brought on by competition from large firms engaged in shale gas exploration and production.

Transportation. Freight transport volume has slowed during the past few weeks, following seasonal trends. Strong demand was still seen from the energy and manufacturing sectors. Our contacts expect volume to grow at a slow, steady pace during 2012, with predictions in the mid-single digits. We heard numerous reports of rising prices for parts, especially tires, and of some volatility in fuel prices. Much of the cost increase was recovered via fuel surcharges and rate adjustments when contracts came due. Capital outlays were on plan for 2011. Most of our contacts expect to increase their capital budgets during 2012 for fleet expansion and to replace aging equipment. Operators reported hiring for driver replacement or adding capacity, although recruiting qualified drivers is difficult. Wage pressures exist due to a tightening of the driver pool.

FIFTH DISTRICT–RICHMOND

Overview. District economic activity generally flattened or improved slightly since our last report. Manufacturing activity was little changed in late November through mid December, while port activity slowed. Retail reports were mixed; notably, several car dealers reported higher sales of used and new vehicles. Non-retail services firms also reported stronger revenues in recent weeks. In addition, most tourism contacts indicated bookings were up. In finance, however, loan demand continued to be weak, with the exception of commercial loans. Likewise, residential real estate activity generally declined. We received mixed reports on commercial real estate activity. Manufacturing employment declined somewhat, while the average workweek ticked up and wages advanced in line with our last report. Retailers reduced their payrolls and wages flattened, while non-retail services providers added to their payrolls and average wages increased in that subsector.

Manufacturing. District manufacturing activity remained flat since our last report. Our latest survey showed little change in shipments, but a slight increase in new orders. A producer of residential doors reported that business at his firm remained depressed. Similarly, a furniture manufacturer said that demand was generally sluggish across all categories, particularly for residential furniture. In contrast, a fabricated metal producer cited an improvement in December's order volume, which he attributed to customers placing orders in advance of higher basic metals prices. That increase in orders allowed his company to operate at capacity and avoid employee layoffs. Moreover, an automobile parts manufacturer ordered new manufacturing equipment due to increased demand and the need to reduce employee overtime. According to our survey respondents, both raw materials prices and finished goods prices grew at a notably slower pace than a month ago.

Port activity in the Fifth District slowed in recent weeks, with imports coming in below earlier expectations. Several officials reported that imports have turned flat on a year-over-year basis, after modest gains during the summer had raised hopes of continued improvements through the remainder of the year. One analyst stated that the typical autumn "bump" in retail orders did not occur this year. A modest uptick of imports is still expected in January, ahead of Asian plant closings for the Chinese New Year in February. In contrast, most port officials expected robust exports, especially for non-container goods. A late harvest has led to increases in grain exports, according to one official. Nonetheless, shipping rates are low and carriers are losing money, causing several analysts to expect increased pressures among carriers to consolidate.

Retail. Retail merchants gave mixed sales reports, while wholesalers generally indicated a pickup. The manager of a chain discount store in North Carolina described sales as "erratic," and a contact in the Tidewater area noted that sales were unchanged, even with increased foot traffic. Unusually warm weather in the District depressed sales of winter apparel. Toys and electronics, particularly televisions, moved briskly in recent weeks. A retailer told us that customers have returned as much as a third of the items previously placed on lay-away before finishing the payments, because, customers said, they "need the money." Although big-ticket sales were down slightly, there were reports of improvement. Jewelers generally reported robust sales. Although higher prices for gold and precious gems damped sales at some stores, other items such as silver remained in demand. Rising cotton prices continued to push up apparel prices. According to several car dealers, strong used-vehicle demand increased trade-in equity. Low interest rates and the rising average age of vehicles on the road also helped move new cars. On the whole, retail price increases were smaller since our last report.

Services. Revenues at non-retail services firms accelerated in recent weeks. Hospital and other healthcare contacts noted that mergers have increased among smaller hospitals and physician practices, as changes in healthcare roll out. Nursing home executives also expressed concern about reduced Medicare payments and the inability of potential resident-care patients to sell their homes. Revenues rose more quickly at medical records management firms, temp staffing agencies, and telecommunications firms. In addition, a pickup in business at engineering firms was noted in recent weeks. An engineering contact in West Virginia commented that old projects that "have been on the shelf" were proceeding. Prices at services firms increased at a somewhat faster pace since our last report.

Finance. Loan demand in the District continued to be generally weak. A West Virginia banker reported that local lending was weak, with no increase for some time. A South Carolina banker cited a decline in the number of outstanding loans. Also, several bank officials around the District noted that, except for multi-family building and refinancing, real estate lending continued to be quite soft. Several bank officials attributed weak loan demand to a lack of confidence on the part of businesses. However, a number of commercial developers noted greater difficulty getting their loans approved. In contrast, an analyst for a large bank in the District reported that commercial lending improved slightly over the last few months, led by small business needs for new capital equipment. A lending officer in Richmond also noted improvement in consumer borrowing for autos, home improvement, and debt consolidation. And several small commercial bankers around the District stated that they were picking up loans from customers who were dissatisfied with the service they were getting from large banks. Most bank contacts stated that interest rates were little changed, and the quality of loans continued to improve modestly.

Real Estate. Residential real estate activity softened since our last report, although a few pockets of strength remained. Several Realtors reported that sales fell considerably and housing prices had declined from a month ago. Many agents attributed the drop in sales prices to short/distressed sales being used as comparables. Most Realtors cited sales in the low-price range as faring better than sales in the high-price range. An exception, however, was an agent in the D.C. area who said that sales in the $1,500,000 plus range were up 31 percent. Brokers in Richmond and Charlotte noted that the rental market was heating up. A builder in Charleston, South Carolina described residential construction as very weak, with a rise in the average number of days on the market for new homes, even as the number of homes for sale declined. In central Virginia, a real estate agent indicated most shoppers were serious about buying, although foot traffic had slowed down quite a bit in recent months. He added that, while closed sales were down, pending sales were up from a year ago.

We received mixed signals from commercial real estate and construction markets in the District. A contractor in the Baltimore area reported that commercial permits over the last month were up on a year-over-year basis for the first time this year. Several contractors in Virginia and Maryland experienced a small pickup in demand and were hoping to increase their prices. And, while some architecture firms in the D.C. area had more signs of stress, one firm reported its best backlog of orders since the recession. In contrast, another D.C. contractor said that projects in the area were few, and each had many bids that were too low for most contractors and their subcontractors to make a profit. A contact in West Virginia noted a dramatic slowdown in local leasing activity. In addition, a developer in South Carolina stated that office and retail space was abundant and no new building was needed except for very specialized structures, such as medical facilities. A commercial Realtor in South Carolina also noted that, although office vacancy rates were high, a significant portion of those buildings were obsolete.

Labor Markets. Assessments of labor market activity changed little since our last report. A representative at a Charlotte staffing and recruiting company for accounting and finance reported an increase in corporate hiring. A staffing services contact from Charleston, South Carolina indicated that 2011 has been an exceptionally strong year for temporary placements, but noted the pool of sufficiently qualified candidates was relatively small and many applicants were disqualified by drug tests. Several contacts cited examples of workers who had declined employment opportunities in favor of unemployment benefits. Looking ahead, employment agencies expected stronger demand for temporary workers during the next six months, along with improving economic activity. A Maryland contact said that he expected employers to utilize temp help to a greater extent than last year, because of economic uncertainty. A commercial architect in Charlotte also reported a trend toward the use of contract labor instead of hiring full time employees. A source from a management consulting group in Maryland stated that businesses believe that regulation and tax increases are impeding full-time hiring. According to our latest survey, hiring at non-retail service firms picked up briskly in December and average wages strengthened. In contrast, retailers cut jobs and average retail wages flattened. Manufacturing employment edged lower over the last month, while the average workweek held steady; wages increased on pace with a month ago.

Tourism. A majority of hotel and resort contacts indicated bookings have been solid since our last report. The manager of a western Virginia hotel and resort described a very busy Thanksgiving weekend. He remarked that they were booked full through the Christmas weekend, even though the unseasonably warm weather limited the number of open ski slopes. A contact on the North Carolina Outer

Banks cited good autumn and early winter tourist activity, and added that bookings were equal to or better than a year ago. Owners of vacation rental property there expected a surge in reservations by early January, when people typically act on decisions made during the winter holidays. A hotel manager in central Virginia also reported increased bookings, and a contact at a North Carolina amusement and recreation venue noted a pick-up in revenues. In contrast, a hotelier in the Piedmont region of South Carolina indicated bookings have been flat. In addition, hotel contacts on the Virginia coast reported that bookings have not increased as expected, owing to the difficult economy and cuts in federal government spending on travel. One hotel representative noted that government employees are now sharing rooms rather than booking individually. Rates were generally unchanged.

SIXTH DISTRICT – ATLANTA

Summary. Sixth District business contacts described economic activity as expanding at a modest pace from late November through December. Reports from most sectors were positive, yet expectations remained guarded. Holiday sales were described by most retailers as generally positive and the pace of sales was stronger than last year by most accounts. Auto sales remained strong as well. Tourism-related spending was solid as international visitors continued to bolster activity. Weakness persisted in the residential real estate sector as both brokers and homebuilders continued to report downward pressure on prices for new and existing homes. Commercial contractors noted a slight improvement in demand compared with earlier in the year. Most manufacturers and transportation contacts noted positive activity, especially related to exports. Bankers noted that deposit growth continued to outpace loan demand. Employment growth was positive but tepid across the District as employers remained cautious with regard to hiring. Concerns over increased input costs eased further as most commodity prices leveled off and business' inflation expectations remained in check. Few contacts reported having significant pricing power.

Consumer Spending and Tourism. District retail contacts noted that sales and traffic in late November and December were up from a year ago. Post-Thanksgiving reports were generally positive; nearly sixty percent of contacts polled indicated that sales were better than the same time period last year. Almost half of contacts reported that inventory levels were up slightly compared to last month, but most were satisfied that current levels were appropriate. High-end and outlet stores were specifically identified as doing well and were posting improved profits. Most merchants polled expect overall sales to improve over the next three months. Auto dealers indicated that sales continued to be strong because of pent-up demand and are better positioned to obtain financing; the pace of sales during early November and December was reportedly the strongest in over two years.

Hospitality contacts reported that holiday activity slightly exceeded cautiously optimistic projections. Occupancy and room rates were up throughout the District. South Florida in particular experienced greater travel activity from Canada and South America. Airport traffic remained above year-ago levels in most major District cities with international travelers helping boost overall arrivals in many Florida destinations. Cruise line reservations remained solid into the first quarter of 2012 as international passengers took advantage of deals. Business travel improved over year-ago levels, although reservations were being made closer to departure dates.

Real Estate and Construction. Residential brokers indicated that sales continued to soften in late November and December but remained ahead of last year's weak levels. However, sales growth varied somewhat across the region. Florida brokers reported that sales growth, measured year-over-year, rebounded in November after moderating slightly in the previous two months. These sales continued to be driven by international and cash sales. Elsewhere in the District, most brokers reported that sales were similar to weak levels seen a year ago. Many contacts noted that appraisals remained problematic. Inventories declined on a year-over-year basis. Brokers continued to report downward pressure on home prices across most of the District. Many anticipate modest sales growth over the next several months with the most positive expectations coming from Florida brokers.

Reports from District homebuilders indicated that new home sales and construction activity growth, measured year-over-year, were flat to slightly up. Builders also continued to report downward pressure on home prices with most reporting that prices were flat or down on a year-over-year basis, in spite of inventories that remained below year-earlier levels. Builders indicated a strong pickup in buyer traffic compared with the same time period as last year. Homebuilders anticipate new home sales and construction to improve modestly in the coming year.

The majority of District commercial real estate contacts continued to report improving demand from earlier in the year. Brokers indicated modest improvements in demand for space with some noting that rent concessions had abated. Contractors continued to report improvements in construction activity from earlier in the year. However, financing remained challenging and most projects were build-to-suit. The outlook among contacts improved modestly from early November with most contractors and commercial real estate brokers anticipating that construction activity will improve slowly during 2012.

Manufacturing and Transportation. On balance, District manufacturing contacts showed notable improvements in both levels of new orders and production in November after reporting several months of decelerating activity. In addition, more contacts reported improving expectations for future production than in previous reports. Export manufacturers and auto producers, in particular, reported strong activity. Auto producers noted that recent flooding in Thailand would likely have a modest, negative impact on production of some models as several plants in that region were damaged or forced to curtail operations for several weeks.

Reports from transportation industry contacts remained positive in late November and December. Port authorities cited volume increases over last year with notable strength in exports. Trucking firms continued to report increased demand for their services but were struggling to meet customer needs because of a significant shortage of long-haul drivers.

Banking and Finance. Liquidity levels at depository institutions remained high as many banks reported strong deposit growth coupled with continued weak loan demand. Some banking contacts noted that they cut loan prices to attract new customers and offered loan concessions proactively to retain existing clients. There was also little demand for new housing loans, although bankers reported mortgage refinancing and automobile loan activity increased. In terms of commercial lending, loan growth among community banks and credit unions was primarily limited to owner-occupied enterprises, while some larger banks reported growth in areas such as energy and healthcare.

Availability of credit/capital was not an issue for most large firms because of positive cash flow, adequate cash reserves, or a strong, long-standing relationship with their bank. Small business contacts, however, continued to report difficulty in obtaining credit from banks and some have turned to non-bank institutions for financing.

Employment and Prices. Contacts across most sectors continued to report modest hiring activity across much of the District. Most of the hiring has been temporary in nature and tied to seasonal employment. However, there were some scattered reports among healthcare and hospitality contacts in South Florida that hiring was occurring as a result of increased demand or expansion. Agriculture contacts reported labor shortages across Alabama, citing newly enacted immigration legislation as the culprit. Firms also noted reluctance towards adding new full-time employees because of uncertainty surrounding healthcare reform, a large pool of both over and under qualified applicants, and because productivity enhancements have made several positions redundant.

Contacts were generally not as concerned with input costs as they had been in previous months, noting that commodity prices had leveled off or eased somewhat. Notable exceptions included reports of restaurants facing elevated food costs and ongoing price pressures from high transportation and shipping costs. Many businesses reported slightly improved margins in late November and December. However, with the exception of high-end apparel retailers and hospitality contacts, firms reported having little pricing power.

In the Atlanta Fed's monthly business inflation survey of firms in the Sixth Federal Reserve District, respondents indicated in December that their inflation expectations for the coming year are 1.9 percent, down slightly from November. Looking forward, businesses indicated that costs for materials and labor may influence them to raise prices. Respondents did not expect changes in productivity, sales, or margin adjustments to have a significant influence on prices over the coming year.

Natural Resources and Agriculture. Energy industry contacts indicated that they continued to add to their workforces and that plans to invest in increased production capacity were proceeding. Permitting for shallow water rigs in the Gulf of Mexico picked up slightly. The first lease auction for deepwater exploration since last year's Gulf oil spill occurred in December with 191 tracks being sold for $337.7 million.

While much of the District witnessed various degrees of drought ranging from "abnormally dry" to "exceptional" in late November and December, both Georgia and Louisiana experienced the most severe conditions. Demand for cotton was flat as a result of global economic concerns and competition from synthetic fibers. Prices for cattle and hogs continued to increase because of strong foreign demand. Several regional agritourism contacts noted plans to expand next year.

SEVENTH DISTRICT—CHICAGO

Summary. The rate of growth of economic activity in the Seventh District picked up in late November and December. Contacts were generally optimistic about the economic outlook for 2012, but many also expressed concern about potential weakness in demand from abroad, particularly from China and Europe. Consumer spending increased, while business spending was steady. Manufacturing production increased. Construction was again subdued, although conditions in real estate markets improved slightly. Overall, credit conditions were little changed from the last reporting period. Wholesale price increases slowed, but there was some further pass-through to the retail level. Corn, soybean, and cattle prices increased, while milk and hog prices decreased.

Consumer spending. Consumer spending continued to increase in late November and December. Compared to last year's holiday season, store traffic volumes were up significantly while nominal spending was up only moderately as consumers reportedly were making more shopping trips and aggressively bargain hunting to obtain the lowest prices. Several contacts noted an increase this year in online shopping and a greater prevalence of flexible and low-cost shipping options. Traditional holiday retail items such as electronics, sporting goods, hobby items, music, books, toys, and apparel all sold well. Contacts additionally reported more spending on luxury items this year. Auto sales increased since the last reporting period. Dealers reported that showroom traffic volumes were up, and many expected sales to continue to improve further in 2012. Importantly, contacts cited a continued boost from replacement demand in light of the record high average age of vehicles in the U.S.

Business spending. Business spending was steady in late November and December. Contacts reported that inventory levels were generally in-line with sales, although inventory rebuilding continued in the auto industry in the aftermath of the supply chain disruptions earlier in the year. Capital investment plans were largely unchanged, with several manufacturers moving ahead with planned increases in capacity. Hiring remained selective, but the majority of contacts indicated plans to increase employment next year. A staffing firm noted slower growth in billable hours and below-average seasonal hiring in office and clerical positions. However, they also indicated that permanent placement activity continued to increase for industrial positions. Manufacturers again cited difficulties in attracting job candidates with ideal skill sets in technical fields such as engineering. Many of these firms indicated that they would rather postpone hiring a candidate until economic conditions improve to a point that would clearly warrant them doing so.

Construction/real estate. Construction activity was subdued in late November and early December, but there was some improvement in overall real estate conditions. Builder showroom traffic picked up slightly, although in general residential real estate market conditions remained depressed as foreclosed properties continued to put downward pressure on prices and single-family construction remained at low levels. In contrast, multi-family construction continued to be an area of strength. The number of residential leases being signed increased from the previous reporting period and rents rose. Nonresidential construction was also up moderately with the strongest gains in Class A properties. Contacts noted greater demand for both industrial and healthcare facilities. In addition, commercial real estate conditions improved slightly with commercial rents stabilizing and a decline in the available amount of sublease space.

Manufacturing. Manufacturing production increased in late November and December. Contacts in the manufacturing sector were more optimistic for 2012 given the pace at which their order books are filling through the first quarter. Auto production increased over the reporting period. However, some contacts still are concerned about the ability to ramp up production much further over the near-term because auto suppliers may be approaching capacity constraints. Demand for heavy equipment remained strong, led by robust activity in the energy and agriculture sectors. Exports also continued to be a source of strength, although slower growth in China and Europe was noted to have held back sales at some firms. In the steel sector, inventories at service centers remain near desired levels, and given the continued strength in the auto, energy, machinery, and mining sectors, steel production was expected to increase in the first quarter of 2012.

Banking/finance. Credit conditions were little changed during the reporting period. Corporate funding costs, while variable, were largely unchanged on balance. Liquidity remained relatively scarce in the high yield debt markets. Banking contacts indicated that business loan demand continued to be subdued, with the exception of some large multinational mining corporations. Businesses utilization of credit lines was only up a bit. Because lenders continue to see their clients' balance sheets growing stronger, they speculated that uncertainty about future business conditions was restraining the demand for credit. However, contacts also noted that some larger manufacturers are making loans to sub-tier suppliers out of retained earnings, thus reducing these suppliers' typical demand for credit from financial institutions.

Prices/costs. Cost pressures eased in late November and early December. While pressure on costs remained from commodities such as steel and food, it moderated significantly for cotton and energy goods. Pass through of elevated material costs to consumers continued. Wage pressures remained moderate, with contacts noting that annual increases in wage and non-wage benefits were largely in-line with last year's increases.

Agriculture. Farm income for 2011 was higher than in 2010; and farmland values and cash rental rates were reported to be higher once again. After falling initially during the reporting period, corn and soybean prices rose in the last half of December. More generally, crop prices fell during the harvest period. However, most crop deliveries involved sales at pre-harvest prices, as many end users found it necessary to ensure sufficient supplies prior to the harvest. In contrast, for those who didn't pre-sell, more of their crop ended up being put into storage. Milk and hog prices fell during the reporting period, while cattle prices increased. Still, export demand helped keep prices for both dairy and meat products higher than they were at the end of 2010. Input costs have risen for the coming planting season.

Eighth District — St. Louis

Summary

The economy of the Eighth District grew at a modest pace since our previous survey. Manufacturing activity has increased since the previous report and activity in the services sector has also increased. Residential real estate activity, in contrast, has continued to decline. Commercial and industrial real estate activity has been sluggish, although contacts noted improvement in some areas. Overall lending at a sample of small and mid-sized District banks declined slightly in the three-month period from mid-September to mid-December.

Manufacturing and Other Business Activity

Manufacturing activity has increased since our previous report. Several manufacturers reported plans to open plants and expand operations in the near future, while a smaller number of contacts reported plans to close plants or decrease operations. Firms in the industrial gas, metallic component, automotive parts, primary metal, and clothing manufacturing industries announced plans to increase operations and hire new workers. In contrast, firms in the speaker component, medical equipment, furniture, and dye manufacturing industries announced plans to decrease operations and lay off workers.

Activity in the District’s services sector has increased since our previous report. Firms in distribution services, consulting services, and health services announced plans to expand operations and hire new workers. Several general retail contacts in the District reported stronger holiday sales compared with last year. District auto dealers reported strong sales of luxury automobiles and pickup trucks.

Real Estate and Construction

Home sales continued to decline throughout most of the Eighth District. Compared with the same period in 2010, November 2011 year-to-date home sales were down 3 percent in Memphis, 4 percent in St. Louis, 5 percent in Louisville, and 7 percent in Little Rock. Residential construction also continued to decrease throughout the District. November 2011 year-to-date single-family housing permits decreased in the majority of the District's metropolitan areas compared with the same period in 2010. Permits decreased 1 percent in Memphis, 17 percent in Louisville, and 21 percent in Little Rock and St. Louis.

Commercial and industrial real estate activity was slow throughout most of the Eighth District. Contacts in central Kentucky reported that commercial real estate activity continues to be sluggish, while contacts in central Arkansas reported soft demand for commercial real estate loans. Contacts in Louisville noted that the health care industry is providing most of the current demand for office spaces. Commercial and industrial construction activity remained unchanged throughout most of the District. Contacts in south-central Kentucky reported that construction activity is modest but noted new commercial construction projects in the Scottsville and Bowling Green areas. Contacts in St. Louis reported continued limited construction, while contacts in Louisville noted that speculative development has still not recovered. Contacts in western Kentucky reported that construction firms are experiencing little activity with the exception of government-related projects.

Banking and Finance

Total loans outstanding at a sample of small and mid-sized District banks decreased 0.2 percent in the three-month period from mid-September to mid-December. Real estate lending, which accounts for 73.4 percent of total loans, decreased 0.5 percent. Commercial and industrial loans, accounting for 15.5 percent of total loans, decreased 0.2 percent. Loans to individuals, accounting for 4.7 percent of loans, increased 2.0 percent. All other loans, accounting for 6.4 percent of total loans, increased 8.0 percent. Over this period, total deposits increased 0.3 percent.

Agriculture and Natural Resources

As of the beginning of December, the number of bales of cotton ginned (separated from the seed) in the District states was up by 11.9 percent over the same period in 2010. Monthly output of commercial red meat for October 2011 increased compared with September 2011 and October 2010. However, the District's total live weight and number of young chickens slaughtered decreased between September and October 2011. The District's monthly coal production for November 2011 was 2.7 percent lower compared with November 2010; however, the District's year-to-date coal production at the end of November 2011 was 2.8 percent higher than the same period in 2010.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew at a modest pace since the last report. Solid growth was reported in some areas of consumer spending and in the energy and mining sectors. Slight to moderate growth was noted in commercial and residential real estate, professional services, manufacturing, and agriculture. Activity in the construction sector was down from a year ago, while the unexpected lack of snowfall dampened tourism. Labor markets showed continued signs of modest strengthening, while wage increases remained subdued. Prices generally remained level.

Consumer Spending and Tourism

Consumer spending increased during the holiday season. Holiday sales at a Minneapolis area mall were up more than 10 percent compared with a year ago. Sales at a North Dakota mall during late November and December were up about 8 percent over last year. A mall manager in Montana noted heavy traffic at the mall during the week before Christmas and the day after Christmas. Same-store sales at a Minnesota-based retailer increased about 2 percent in November compared with a year ago; Black Friday sales were particularly strong. A Minnesota-based sporting goods store reported that Internet sales on Cyber Monday (Nov. 28) increased 50 percent over last year. Warm weather set back some sales of winter apparel, but clear roads allowed shoppers to get to stores. A domestic auto dealer reported strong sales in December.

Tourism activity was down. A lack of snow and surprisingly warm weather stymied snowmobiling, ice fishing, and skiing in many areas. Tourism officials in Minnesota noted that the lack of snow was affecting businesses that cater to winter recreation. Low snowfall in Yellowstone National Park was affecting nearby businesses that offer winter tours of the park on snowmobiles and in snowcoaches. However, a ski resort in Minnesota reported strong preseason sales; the number of visits through the end of December was at expected levels. In western South Dakota, a snowmobiling-related business and a ski resort both have received calls from a number of people who are ready to visit once more snow falls.

Construction and Real Estate

Commercial construction activity decreased modestly over the past year. The value of commercial building permits in the Sioux Falls, S.D., area was down slightly in November from November 2010. Respondents to the University of St. Thomas’s semiannual Minnesota Commercial Real Estate Survey (November) expected higher land and building costs, which should dampen construction. However, several commercial construction projects are under way or planned in Montana. Residential construction decreased from last year. The number of permitted residential units in the Minneapolis-St. Paul, Sioux Falls, and Billings, Mont., areas was down in November from a year ago, but increased in Fargo, N.D.

Commercial real estate market activity increased. According to the aforementioned University of St. Thomas survey, respondents expected growth in rents and occupancy but flat rates of return on investment. Industrial real estate activity increased since the last report, according to a large Minnesota commercial broker. Home sales in December were up from the same period a year ago in the Minneapolis-St. Paul area, and the inventory of homes for sale was at six-year lows; however, prices continued to decline. In the Sioux Falls area, November new listings were down, sales activity was flat, and prices decreased from a year ago.

Services

Activity at professional business services firms increased since the last report. An information technology consulting firm noted a solid backlog of business for 2012. An architectural firm noted more potential projects up for bid, but said many projects never become reality. An accounting firm reported flat activity over the past month.

Manufacturing

The District manufacturing sector expanded slightly since the last report. A November survey of purchasing managers by Creighton University (Omaha, Neb.) found that manufacturing activity increased in Minnesota and North Dakota, and was flat in South Dakota. A number of factory expansions were reported in eastern South Dakota, including at a plastics producer and a packaging firm. In southern Minnesota, a firm that produces pressurized storage tanks for the natural gas industry is expanding into a currently empty building, and a large plant that makes electronically shaded glass began operations after several years of development.

Energy and Mining

Activity in the energy and mining sectors continued to increase. A new wind energy project was announced in western Wisconsin. While District oil and gas exploration activity decreased slightly since the last report, it remained well above year-earlier levels.

An oil transport facility expansion is planned in North Dakota that will add a rail car loading area and increase holding capacity by 80,000 barrels per day. Mining activity remained strong. A new venture on Minnesota's Iron Range to extract material for steel production from old mining dumps recently began operations at one site and made its first shipments; two more sites are planned.

Agriculture

Growth in the agricultural sector moderated, as some commodity prices declined. Prices received by farmers for wheat, corn, hogs, and dairy products decreased in December from the previous month. Cattle, poultry, egg, dry bean, and hay prices increased in December from the previous month. Meanwhile, a partnership announced the development of a large grain-loading facility in Minnesota.

Employment, Wages, and Prices

Labor markets showed continued signs of modest strengthening. A pharmacy benefits management company recently announced plans to add 300 jobs in Minnesota. A bank is hiring almost 80 more workers at a call center in South Dakota. Bank directors noted that in the Dakotas and some parts of Montana, employers would hire if they could find workers; some of these employers have started to offer relocation packages as an incentive. According to a recent survey by an employment services firm, 15 percent of respondents in Minneapolis-St. Paul expect to increase staffing levels during first quarter 2012, while 8 percent expect to decrease staff. A year ago, 10 percent expected to increase hiring, while 6 percent expected decreases. Minnesota initial claims for unemployment benefits decreased 18 percent in November compared with a year earlier.

Wage increases were subdued. Several contacts noted small wage increases at their firms. A Minnesota manufacturer of residential windows reported that its employees will go without an annual bonus for the third straight year, but the company also hasn't laid anyone off during those three years.

Prices generally remained level. End-of-December Minnesota gasoline prices were flat since the last report, and only 18 cents per gallon more than a year ago. Overall metals prices were level since the last report and lower than a year ago. A Minnesota-based electronics retailer heavily discounted products at its stores during the early part of the holiday shopping season. However, a bank director noted that a number of District manufacturers were planning to raise prices in 2012.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy expanded at a modest pace in late November and December. Consumer spending softened, with weakness in auto, restaurant, and tourism sales. District manufacturing activity contracted slightly, though factory operators remained optimistic about growth in the coming months. High-tech firms reported continued strong growth, while transportation activity was flat. Residential and commercial real estate conditions remained broadly weak, but contacts expressed increased optimism about sales and prices in the coming months. District banks reported generally steady loan demand and improved loan quality. High crude oil prices buoyed activity in the District's energy sector. Agricultural growing conditions improved, but higher input and production costs constrained farm profits. Rising input costs were reported in several sectors, but few District contacts noted either hiring shortages or wage pressures.

Consumer Spending. Consumer spending softened in late November and December, with a slowdown in the auto, restaurant, and tourism sectors. Many District contacts attributed the weakness in spending to ongoing regulatory and political uncertainty. Most retailers, however, expected spending to rise over the next three months. Following several months of strong activity, auto dealers reported a dip in sales with slower sales expected in coming months. Auto inventories increased over the previous survey period, and most dealers reported satisfaction with current levels. Restaurant sales were flat despite larger average check amounts. However, restaurant contacts expected sales to rebound over the next three months. Tourism activity slowed, as winter storms hampered some tourist activity but helped ski resorts. Hoteliers reported lower occupancy rates but stable average room rates.

Manufacturing and Other Business Activity. Manufacturing activity contracted slightly during the survey period, but factory operators remained optimistic about the coming months. Activity was broadly weaker, with production, shipments, and new orders lower relative to the prior survey. The weakest sectors were food processing and fabricated metals, while growth in machinery and high-tech manufacturing remained strong. Order backlogs, manufacturing employment, and average hours worked declined. Despite weaker activity, expectations were positive for the coming months for production, shipments, and orders. Transportation firms reported mostly unchanged conditions as activity remained well above year-ago levels. Most high-tech services firms reported sales gains and increased capital spending. Contacts in both the transportation and high-tech sectors reported continued difficulty finding skilled workers.

Real Estate and Construction. Residential and commercial real estate activity remained sluggish in late November and December. District home prices were flat, but most real estate contacts expected prices to rise along with home sales over the next three months. Multiple contacts reported multi-family housing as a source of strength in the housing market. Mortgage lenders reported weak mortgage demand with fewer home purchases and refinancings relative to the previous survey period. Lenders cited stricter mortgage lending requirements as a key factor underlying weak loan demand. Housing starts declined further, and expectations about future construction activity remained subdued. Construction supply firms reported weak sales over the survey period, and most expected little change in activity over the coming months. Commercial real estate sales, prices, and vacancy rates improved, and District contacts were more optimistic about the coming months. Rents on commercial properties were stable and expected to rise over the next three months. Developers reported little change in access to credit.

Banking. Almost all bankers reported generally steady loan demand, stable or improving loan quality, and increased deposits. Loan demand by category was mixed. Most respondents reported steady loan demand for commercial and industrial loans, commercial and residential real estate loans, and consumer installment loans. Remaining respondents were split between stronger and weaker demand within each of these categories. Credit standards remained largely unchanged in all major loan categories and deposits increased for the eighth straight survey. Bankers generally reported loan quality as steady or improving compared to a year ago and reported the outlook for loan quality over the next six months as steady or improving.

Agriculture. Agricultural growing conditions improved in late November and December but farm income prospects dimmed with high input costs. Timely rains eased drought conditions in the Southern Plains. Most of the winter wheat crop emerged in good condition, though more protective snow cover was needed for the winter dormancy period. Volatile crop prices and high input costs tempered crop profit expectations for the coming year. High production costs trimmed margins for livestock operators even though strong export demand underpinned prices. Still, with historically high profits, many farmers were repaying operating loans, buying farmland and purchasing additional machinery and equipment. District contacts reported an increase in the number of farmland auctions as record high land prices enticed more landowners to sell.

Energy. District energy and mining contacts reported continued strong activity in late November and December and remained optimistic about the coming months. Drilling rig counts were flat in most District states but remained well above year-ago levels. Drilling continued to shift away from dry natural gas and toward liquid-rich formations. However, crude exploration in the Niobrara formation in Wyoming slowed as contacts reported better opportunities in other areas. Producers expected stable crude prices but relatively weak natural gas prices over the next three months. Attracting qualified workers and finding adequate equipment remained a concern for oil and gas contacts. District coal production declined slightly in November and December and remained below year-ago levels. A recent drop in ethanol prices trimmed margins for ethanol producers despite lower input costs and strong export demand.

Wages and Prices. District contacts reported higher prices for both inputs and finished goods, but wage pressures remained confined to select industries and occupations. Manufacturers reported an uptick in input prices in late November and December, but relatively few reported higher finished goods prices. Manufacturers expected further price increases for both inputs and finished goods in the coming months. Most restaurants reported a continued rise in food costs and expected further increases over the next three months. Retailers and transportation firms increased prices in the latest survey period, while construction suppliers reported falling prices due to weak building demand. Few contacts outside of the energy, high-tech, and transportation sectors reported either hiring shortages or upward wage pressures, and most expected little wage pressure in the coming months. Rising employee benefit costs, particularly for health care, remained a concern for many contacts.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy grew at a moderate pace since the last report. Manufacturing activity was mixed. Contacts said retail sales were robust and automobile sales held steady. Demand for business services was solid, and activity in transportation services rose modestly. Housing and commercial real estate markets continued to improve slightly. Construction activity remained subdued, with apartment construction being the major exception. Financial services respondents said overall loan demand was flat to up slightly. Energy activity slowed somewhat, but respondents expect strong growth in activity in 2012. Agricultural conditions remained weak. Employment levels were mostly unchanged. Price and wage pressures were subdued.

Prices Contacts across industries said prices held steady or declined. The exceptions were producers of paper, fabricated metals and food who noted increased prices for some inputs. Crop commodity prices were generally lower than six weeks ago, while cattle prices held fairly steady.

The price of WTI moved in a narrow range between $95 and $100 per barrel during the reporting period. Natural gas prices remained low, near $3.50 per thousand cubic feet, due to unseasonably warm weather and large inventories. Diesel and gasoline prices declined by 20 cents per gallon over the past six weeks, and prices of petrochemicals and plastics held steady or fell slightly.

Labor Market Employment levels were flat to up slightly at most responding firms. Staffing firms continued to note high levels of demand. Energy industry respondents said labor shortages for skilled workers, such as engineers, geologists, and machinists, remained a barrier to expansion. Some producers of food, fabricated metals and transportation equipment noted moderate employment increases, and auto dealers said they continue to look for additional workers. Wage pressures remained minimal, although staffing firms noted modest increases in billing rates for skilled workers. Several firms noted plans to give employees cost-of-living adjustments next year.

Manufacturing Construction-related manufacturers' responses were mixed. Stone, clay and glass producers said demand was below expectations, while lumber producers noted no change in activity. Fabricated metals producers said demand had increased since the last report, and some reported a pickup in private nonresidential projects, especially from foreign investors. Primary metals demand was mostly stable and was characterized as "decent but not great." Construction-related firms' outlooks are cautiously optimistic for 2012.

Respondents in high-tech manufacturing reported that sales grew at a weak to moderate pace since the last report. Sales and prices for DRAM continued to be very weak, while demand and prices for processors were holding up much better. Respondents said that increased demand for mobile devices and data storage should drive up demand for semiconductors by the second quarter of 2012. Respondents noted, however, that economic uncertainty remains very high.

Conditions in the paper industry were mixed. Most contacts noted weakness, although one reported an unusually busy December with strong orders from the auto and construction industries. Respondents expect conditions to remain about the same in 2012 as in 2011. Automobile and aviation equipment manufacturers said demand had picked up slightly since the last report. Expectations are for stronger sales of automobile equipment in 2012, but aviation manufacturers expect only modest growth. Food producers noted a pickup in demand since the last report, in part due to stronger consumer demand, and partly due to increased market share. Outlooks among food industry contacts remain positive.

Petrochemical producers noted a seasonal slowdown in demand for most products. Producers of plastics and plastic feedstocks said prices and inventories stabilized after sharp declines in October and November. Demand for chlorine showed weakness beyond the normal seasonal slowing, and some contacts attributed the weakness to slower global growth. Contacts in the refining industry noted weak domestic consumption of refined products, especially gasoline, although export markets were still strong. Inventories were said to be near expectations for this time of year. While both gasoline and diesel prices slipped over the past six weeks, refiners’ margins remained at healthy levels, according to contacts.

Retail Sales Retailers said sales activity was robust during the reporting period, and retail sales growth saw moderate gains over the comparable year-ago period. However, contacts noted consumers remain cautious and value-driven. The Eleventh District and Midwest in general exhibited stronger sales growth than other parts of the nation, according to the responding firms. Inventories have increased over the prior year, but are at desired levels. Jewelry, small electronics and apparel were areas of strength in retail this holiday season.

Automobile sales held steady from the prior report and have increased year-over-year. The used car market remains tight. Contacts expect 2012 will be another good year, with moderate increases in sales. Vehicle inventories are back to normal levels for the most part, although some contacts reported light inventories due to increased activity.

Services Staffing firms continued to report high levels of demand. However, some contacts noted a slight slowdown in activity as some clients delayed hiring until the start of 2012. Direct hires continued to drive business, with particularly strong demand for professional and technical workers. One contact noted a shortage of skilled IT professionals. Outlooks were more optimistic than in the last report, with contacts expecting demand to remain robust or improve next year. Demand for accounting services remained flat, and overall growth this year has been slightly weaker than expected. Legal firms reported steady activity, with continued strength in demand for intellectual property, energy, litigation and some real-estate services and a slight pickup in corporate activity.

Reports from transportation service firms were positive. Intermodal firms reported steady cargo volumes during the reporting period, and outlooks are positive for the first half of 2012. Railroad firms noted a broad-based increase in shipments, with particularly strong growth in petroleum products, motor vehicles and equipment, nonmetallic minerals, crushed stone, metals and metallic ores. Small parcel shipments rose strongly during the reporting period.

Airlines reported steady passenger demand over the past six weeks. Domestic demand and travel to Latin America remained solid, and travel to Europe and Asia improved slightly. Airline contacts expect demand to remain stable in the short term.

Construction and Real Estate Housing industry contacts continue to report improving conditions overall, although sales activity remains at low levels. Home sales rose at a modest pace over the reporting period and new and existing home inventories continued to decline. Contacts are hopeful that the housing industry is poised for a recovery in 2012. Apartment demand remained steady since the last report and contacts characterize Texas markets as tight. Apartment construction continues to increase, and contacts noted that multi-family properties are the favored property type among real estate investors.

Conditions in nonresidential property markets continue to firm, according to most contacts. Demand for office space continued to rise modestly since the last report, and there were some reports of improvement in demand for warehouse and retail space. Nonresidential construction activity remains at low levels, and some contacts noted concern about 2012 as public projects come to a close. One contact noted that while conditions have improved overall, real estate financing remains a challenge due to weak consumer sentiment and higher investment risk.

Financial Services Financial firms reported flat to modest increases in loan demand. National banks noted a pickup in both middle- and large-market corporate lending activity. Regional banks said loan demand was mixed, with strength in energy-related lending and weakness in other loan activity. Loan pricing remained competitive. The quality of loans outstanding continued to improve, with contacts noting a decline in problem loans. Outlooks are uncertain given mostly sluggish loan demand.

Energy Oil field activity slowed seasonally at year end, with the District rig count edging down. However, respondents expect a high level of activity to resume early in 2012 and increase throughout the year. Respondents cited strong orders, growing backlogs, and good pricing for their products as evidence of future growth.

Agriculture The District remained largely in drought, although recent rainfalls have lessened the drought’s severity in most parts and benefitted the winter wheat crop. There is still very little grazing available, resulting in costly supplemental feeding of livestock. Demand for agricultural products receded slightly over the reporting period, although beef exports remained strong.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District continued to grow at a moderate pace during the reporting period of late November through the end of December. Upward price pressures remained very modest overall, and upward wage pressures were quite limited. Holiday retail sales reportedly were up over last year's season, and demand edged up for business and consumer services. District manufacturing activity grew further on net. Production activity and sales remained robust for agricultural producers and rose a bit further for providers of energy resources. Activity in District housing markets stayed at very low levels, and demand for nonresidential real estate generally was weak. Reports from financial institutions indicated a slight increase in business loan demand.

Wages and Prices

Price inflation remained quite limited for most final goods and services during the reporting period. Contacts noted recent price increases for selected commodities such as oil and for assorted food items at the retail level, in particular for meat. However, intense supplier competition for existing customers kept a lid on final sales prices for the majority of retail goods and services.

Contacts in most sectors reported that upward wage pressure were modest, although they continued to note rising costs for employee health benefits. Elevated unemployment rates and limited hiring kept compensation gains modest across most regions and sectors, with the exception of significant wage increases for workers with specialized skills in selected manufacturing and technology sectors. Looking ahead, most businesses expect little change in the pace of hiring and wage gains next year.

Retail Trade and Services

Retail sales were up compared with last year's holiday season, with gains reported by traditional department stores as well as discount chains. Inventories generally were at or near desired levels given the pace of sales, although contacts reported an excess of winter apparel resulting from unusually mild weather. Demand remained largely unchanged compared with prior reporting periods for retailers of major appliances, furniture, and electronics. Sales improved somewhat for grocers. Sales of new automobiles rose further overall during the reporting period, although slightly softer demand was noted for the last few weeks. Demand for used vehicles remained robust, and dealers reported marked improvement in the quality of trade-ins compared with earlier in the year.

Demand for business and consumer services was mixed but appeared to expand slightly on net. Demand for transportation services remained largely flat, as did demand for professional services such as legal services and accounting. Sales were largely stable on a seasonal basis for restaurants and other food-service providers. For providers of health-care services, demand softened a bit further, as higher emergency room visits were more than offset by declines in inpatient admissions and surgeries. By contrast, sales continued to expand for providers of technology services to businesses and consumers, although the pace of growth continued to slow. District travel activity picked up further, with additional growth in demand reported for the tourism and business segments of the market alike.

Manufacturing

District manufacturing activity expanded further on balance during the reporting period of late November through the end of December. Makers of commercial aircraft and parts reported further expansion in production activity, with ongoing growth in new orders attributed in part to rising demand for fuel-efficient aircraft. Activity remained largely stable for metal fabricators and is expected to remain so for the foreseeable future. For manufacturers of semiconductors and other technology products, demand growth continued to slow, and capacity utilization dipped a bit from existing high levels as companies sought to hold down inventory growth. Capacity utilization rates for petroleum refiners remained largely stable or rose somewhat as robust global demand for distillate products, such as diesel and jet fuel, offset weak domestic demand for gasoline. Activity remained exceptionally sluggish for manufacturers of wood products.

Agriculture and Resource-related Industries

Demand was robust for agricultural producers and grew a bit for natural resources used for energy production. Final sales and orders for most agricultural products, including livestock and a variety of crops, continued to expand. Elevated price levels for a range of metals supported further expansion of mining activity in parts of the District. Overall demand for crude oil rose slightly, largely reflecting robust foreign demand, while mild winter weather has kept demand for natural gas subdued and caused extraction activity to wane a bit.

Real Estate and Construction

Home demand in the District remained at very low levels, and demand for commercial real estate stayed weak. The sales pace for new and existing homes was somewhat mixed across the District but sluggish overall. In response to slow sales and continued high numbers of financially distressed properties, home construction activity remained moribund and prices were mostly flat. Demand for commercial real estate remained weak overall, keeping vacancy rates for office and industrial space elevated in most parts of the District. However, in selected geographic areas, such as the San Francisco Bay Area and Seattle, expansion in the information technology sector continued to spur demand growth for office and industrial space.

Financial Institutions

Reports from District banking contacts indicated that loan demand improved a touch relative to the prior reporting period. The volume of new commercial and industrial loans inched up, although contacts noted that businesses remain very cautious in their approach to capital spending. Contacts again noted stiff competition among lenders to extend credit to well-qualified small and medium-sized businesses, causing sustained downward pressure on loan rates and fees. Contacts from the venture capital sector noted a slight pickup in IPO and investment activity, on the heels of a slowdown in the prior reporting period. On the consumer side, loan demand remained largely unchanged. In general, lending standards stayed relatively restrictive for many types of business and consumer loans, despite further modest improvements in overall credit quality.