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Summary of Commentary on ______________________

Current Economic Conditions

By Federal Reserve District

February 2012

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICT

FEBRUARY 2012

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Summary*

Reports from the twelve Federal Reserve Districts suggest that overall economic activity continued to increase at a modest to moderate pace in January and early February. Activity expanded at a moderate pace in the Cleveland, Chicago, Kansas City, Dallas, and San Francisco Districts. St. Louis noted a modest pace of growth and Minneapolis characterized the pace of growth as firm. Economic activity rose at a somewhat faster pace in the Philadelphia and Atlanta Districts, while the New York District noted a somewhat slower pace of expansion. The Boston and Richmond Districts, in turn, noted that economic activity expanded or improved in most sectors.

Manufacturing continued to expand at a steady pace across the nation, with many Districts reporting increases in new orders, shipments, or production and several Districts indicating gains in capital spending, especially in auto-related industries. Activity in nonfinancial services industries remained stable or increased. Reports of consumer spending were generally positive except for sales of seasonal items, and the sales outlook for the near future was mostly optimistic. Tourism remained strong in some reporting Districts, but declined in the Minneapolis and Kansas City Districts because of reduced snowfall. Residential real estate market conditions improved somewhat in most Districts, with several reports of increased home sales and some reports of increased construction. Commercial real estate markets also showed positive results in some Districts. Banking conditions generally improved across the Districts. Agricultural conditions were mixed, while extraction activity generally increased.

* Prepared at the Federal Reserve Bank of St. Louis and based on information collected on or before February 17, 2012. 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.

Hiring increased slightly across several Districts, and contacts in a variety of industries faced difficulties finding skilled workers. Wage pressures were generally contained, and prices of final goods remained stable, although contacts in some Districts anticipate passing rising input prices through to consumer prices.

Manufacturing and Other Business Activity

Manufacturing has continued to increase across all twelve Federal Reserve Districts since the previous report. Most Districts reported gains in new orders, shipments, or production. Contacts reported increased capital spending in the Boston, Richmond, Chicago, Kansas City, St. Louis, Minneapolis, and Dallas Districts; contacts in Philadelphia and Cleveland also anticipate higher capital spending. Manufacturing contacts in San Francisco also continued to invest in information technology equipment. Auto-related manufacturers in the Richmond, Atlanta, St. Louis, and Minneapolis Districts reported increased activity and announced plans to expand operations and open new plants. Primary metal manufacturing showed strong growth in the Philadelphia, St. Louis, and Dallas Districts. Fabricated metal manufacturing increased in the Richmond, Kansas City, and Dallas Districts but was essentially flat in the San Francisco District. Steel producers reported that shipping volume was trending higher in the Cleveland District and specialty metal contacts reported solid order bookings in the Chicago District. In contrast to the many positive reports, contacts in some Districts reported plans to decrease operations and close plants. Contacts in chemical and paper product manufacturing in the St. Louis District reported plans to close plants and lay off workers, while manufacturers of household goods and building materials reported soft demand on average in the Chicago District. Manufacturing contacts in the Boston, Philadelphia, and Cleveland Districts expressed concern about the risks posed by the situation in Europe.

Nonfinancial services activity was stable or increased in the New York, Philadelphia, Richmond, Atlanta, St. Louis, Minneapolis, Dallas, and San Francisco Districts. Transportation services were stable or trending higher in the Cleveland, Richmond, Atlanta, and Dallas Districts. In contrast, freight transportation contacts in the St. Louis and Kansas City Districts reported that business had slowed. Information technology service firms in the Boston, St. Louis, Kansas City, and San Francisco Districts have experienced increased demand since the previous reporting period. Additionally, contacts in health care announced plans to increase capital spending or expand operations in the Richmond and St. Louis Districts.

Consumer Spending and Tourism

Retail sales in the Philadelphia, Atlanta, St. Louis, Minneapolis, and Kansas City Districts were higher than year-earlier sales. The Boston District reported strong same-store sales in the last few months of 2011, but mixed results for same-store sales in January. Retail sales increased in the Richmond and San Francisco Districts, but were mixed in the New York and Cleveland Districts and weakened in the Kansas City District. Retail sales growth in the Dallas District was tepid and consumer spending growth slowed in the Chicago District. The Boston, New York, Philadelphia, Cleveland, Chicago, and Dallas Districts noted that mild winter weather had depressed sales of seasonal items. Mark-downs on winter merchandise to clear inventory were reported in the Boston, Chicago, and Richmond Districts. Aside from unsold seasonal items, inventories were more broadly reported to be at satisfactory levels. All Districts reporting sales expectations for the coming months indicated optimism among contacts that sales will improve.

Gains in auto sales were reported in the Philadelphia, Atlanta, St. Louis, and Minneapolis Districts. Chicago also reported sales increases in January, but noted that sales were down slightly in early February. Auto dealers in the New York, Cleveland, and Richmond Districts reported a slowdown in recent auto sales, while auto sales held steady in the Dallas District and contacts in the Kansas City District reported a post-holiday lull in sales. All Districts reporting on sales outlooks conveyed optimism. Dealers in the Kansas City District expect demand for smaller, fuel-efficient cars to spur sales in coming months, while contacts in the Cleveland District were optimistic but uncertain that sales increases in 2011 could be repeated in 2012.

Tourism strengthened or remained strong in the New York, Richmond, Atlanta, and San Francisco Districts. The Minneapolis and Kansas City Districts reported a decrease in tourism largely attributed to below-average snowfall.

Real Estate and Construction

Residential real estate activity increased modestly in most Districts. Boston, Cleveland, Richmond, Atlanta, Kansas City, and Dallas reported growth in home sales, while New York noted steady to slightly softer home sales. Philadelphia reported strong residential real estate activity. In contrast, home sales declined in St. Louis and San Francisco noted that home demand persisted at low levels. Contacts’ outlooks on home sales growth were mostly optimistic. Contacts in Boston, Philadelphia, Atlanta, and Dallas expect home sales to rise further. Home prices declined or held steady in many areas. Cleveland and Atlanta reported little movement in house prices, while contacts in Boston, New York, Philadelphia, Richmond, Chicago, and Kansas City reported some declines. Single-family residential construction was weak in Chicago and declined in St. Louis; Cleveland noted that the year-end uptick seen in construction has abated somewhat, and Minneapolis noted increased single-family building permits. In contrast, Boston, Atlanta, Chicago, Minneapolis, Dallas, and San Francisco reported increased multifamily construction activity.

Commercial real estate markets displayed positive results in some Districts, as leasing showed overall improvement. Minneapolis, Richmond, Chicago, and Dallas noted increased leasing. Boston, however, reported mostly unchanged leasing fundamentals with some modest improvement since the previous report. Commercial vacancy rates were mixed in New York, decreased in Chicago, increased in St. Louis, and stayed high in San Francisco. Boston and Dallas noted limited levels of nonresidential construction, while Cleveland and Chicago noted improved nonresidential construction.

Banking and Finance

Reports on banking conditions were generally positive across Districts. Lending increased to varying degree in the New York, Philadelphia, Richmond, Chicago, Dallas, and San Francisco Districts. Lending was little changed in St. Louis and Kansas City, while loan demand was described as weak in Richmond and soft at regional banks in Atlanta. Demand for business credit was flat to slightly higher in Cleveland and increased slightly in Richmond, San Francisco, and at some large banks in Atlanta. Dallas reported strength in middle-market and large corporate lending, and Chicago noted that business loan growth continued at a moderate pace. On the consumer side, loan demand saw little change in New York and San Francisco. Cleveland and Atlanta noted increased auto lending, while Kansas City reported slightly weaker consumer installment lending. Consumer lending in St. Louis ranged from moderately weaker to unchanged. Demand for residential mortgage loans increased in New York, Richmond, and Kansas City; mortgage demand was flat to moderately stronger in St. Louis and softened in Kansas City. Cleveland noted increases in requests for commercial real estate lending, while contacts in Chicago and San Francisco noted improvement in the availability of credit for this sector. Meanwhile Philadelphia and Kansas City reported flat or steady commercial real estate lending. Demand for commercial real estate loans was flat to moderately stronger in St. Louis.

Overall lending standards remained restrictive in San Francisco and Richmond and were largely unchanged in St. Louis and Kansas City. Lending standards tightened further for commercial borrowers in New York. Credit conditions in Chicago improved slightly, while quality improved in Philadelphia and Kansas City. Delinquencies were steady or declined in Cleveland. Mortgage delinquencies were steady in the New York District but delinquencies decreased in other loan categories.

Agriculture and Natural Resource Industries

Drought conditions and warm temperatures affected agricultural conditions in some Districts. However, recent rainfalls in parts of the Richmond, Atlanta, Kansas City, and Dallas Districts helped ease the dry conditions. Crop yields for St. Louis were mixed, with only winter wheat, rice, and tobacco showing positive gains for 2011. Tobacco and cotton yields in Richmond were lower than historical averages. San Francisco reported growth in orders and final sales for agriculture products. Farm values and incomes were stronger in Minneapolis and Kansas City, while Richmond saw a slight drop in farmland values.

Kansas City, Dallas, and San Francisco noted higher crude oil extraction activity. Similarly, Chicago and Minneapolis reported robust activity in energy and mining, and energy-related service firms in Dallas reported very strong demand. Mining for various metals also increased in the San Francisco District. Cleveland reported flat conventional oil and natural gas drilling and production, and San Francisco observed lower demand for natural gas. The Dallas District noted drilling cuts by a few gas-directed firms, but contacts anticipate that oil-directed activity will offset losses. Compared with a year ago, current coal production is lower in St. Louis and higher in Kansas City.

Employment, Wages, and Prices

Of the Districts reporting on hiring, most indicated a slight increase. Boston, New York, Cleveland, Richmond, St. Louis, and Minneapolis reported increased hiring in manufacturing, and contacts in Philadelphia and Kansas City anticipate future hiring in the sector. Several businesses in the Atlanta District also reported plans to increase payrolls. Philadelphia, Kansas City, and Dallas noted increased hiring among auto dealers. Contacts in Boston, Cleveland, Richmond, Chicago, Kansas City, and Dallas were having difficulties finding skilled or specialized workers in a variety of industries. In contrast, Boston manufacturing contacts reported fewer complaints about being unable to find qualified workers. Chicago noted that hiring remains selective and long-term unemployment elevated, while San Francisco noted limited demand for new workers. Staffing firms in Boston noted that the hiring cycle remains “elongated” despite stronger demand. Staffing firms in Dallas also noted high demand, while a major employment agency in New York indicated flat hiring.

Among Districts commenting on wages, upward pressures appeared limited. Boston noted limited pay rises in retail and manufacturing. Richmond reported some upward wage pressures in the service sector and manufacturing. Dallas and San Francisco reported minimal wage pressures, although upward pressure for certain specialized positions was reported in both Districts. Similarly, wage pressures remained largely subdued in Kansas City except for high-tech and energy positions. Wage pressures were modest or largely contained in Cleveland and Dallas, while Philadelphia noted flat wages and Minneapolis reported modest wage increases. New York noted that Wall Street compensation remains under downward pressure.

Prices of final goods and services were relatively stable in most Districts. Retail prices increased at a moderate pace in the Richmond and Kansas City Districts. Contacts in the New York District reported modest increases in selling prices and prices paid. Contacts in the Cleveland, Richmond, Kansas City, and Dallas Districts noted rising input prices with some expectation of pass-through to consumer prices. Cost pressures were largely unchanged in Chicago and input prices have stabilized in the Boston District, while business contacts noted some increase in cost pressures in the New York District. Minneapolis and San Francisco noted increases in the costs of employee benefits. Philadelphia noted mixed price pressures among manufacturing firms, with some firms unable to pass their higher costs along. Atlanta reported that concerns over increased input costs eased, although several manufacturing firms noted an increase in commodity prices since the previous report.

FIRST DISTRICT – BOSTON

Economic activity in the First District continues to expand. With the exception of real estate, business contacts are generally upbeat about recent results, reporting similar or better growth than in the last couple of reports. Commercial and residential real estate markets are not much changed, with respondents citing weak but not disastrous conditions. While staffing firms note increased demand for labor, contacts in retail and manufacturing say they are hiring only modestly and plan limited pay raises. With a few exceptions, price pressures appear to have abated.

Retail and Tourism

First District retailers responding in this round report that business conditions in early 2012 have continued the improvement seen in the fourth quarter. Contacts ending their fiscal year in late December or early January say that fiscal 2011 sales ranged from down 2 percent to up 5 percent compared to 2010. These results are generally better than they expected at the start of 2011 and reflect strong same-store sales in the last few months of 2011 as compared to earlier in the year; indeed, December 2011 same-store sales ranged from high single-digit increases year-over-year to mid-teen increases. The range of results was wider in January 2012: One retailer reports same-store sales were down 8 percent to 9 percent year-over-year, which he attributes to mild weather depressing demand for winter hardware items as compared to a particularly snowy January 2011. Another saw January comparable-store sales up 7 percent compared to a year ago, and a third respondent enjoyed a 17 percent jump, which he credits in part to the mild winter not keeping customers at home. All contacts note that store traffic is up.

Responding retailers report that furniture is selling very well, as is paint. As noted above, the mild winter has depressed sales of some seasonal items, and one retailer has steeply discounted winter clothing to get rid of inventory. Prices on furniture are generally flat, but retailers expect the cost of items made with copper or titanium oxide (paint) to reflect price increases in these commodities. Stores are doing light hiring for some full-time and part-time positions; they are budgeting 2012 merit pay increases between 2 and 3 percent. Retail respondents expect the U.S. economy to improve further in 2012. While remaining a bit cautious, they all note that economic conditions seem more favorable than last fall.

Manufacturing and Related Services

Manufacturing conditions in the First District appear to have improved since the end of last year. All respondents in this cycle report sales growth in the fourth quarter from a year earlier. Although many contacts express serious concerns about the situation in Europe, only two say that sales to Europe were actually down. In contrast to the last two rounds, this time few contacts mention weakness in Asia. Contacts among defense suppliers express concern about the budget. One had concluded that programs his firm worked on were largely insulated from cuts but said they are “having trouble convincing our investors of that.” Another said that budget issues are leading to delays but not to reductions in sales.

Raw material prices have stabilized overall but remain an issue. On the one hand, a plumbing manufacturer said that copper is “on the march again.” On the other hand, low natural gas prices have been a boon to U.S. industry. A contact in the industrial membrane industry reports that a multimillion dollar project to switch to natural gas has already led to millions of dollars in savings. A petrochemical contact points out that the equivalent price of natural gas in terms of oil is approximately $25 a barrel, making the U.S. a low cost producer of petrochemicals; as he put it, we are “exporting natural gas in the form of ethylene and polyethylene.”

All of our manufacturing contacts are increasing investment and none cites any issues finding financing. Remarkably, almost all of our contacts say they have acquired at least one company over the last six months. Almost all responding manufacturers report increased employment and there are fewer complaints about difficulties finding qualified workers than in the past; at the same time, an equipment manufacturer is spending significant sums on training expenses for new hires. A pharmaceutical firm closed a facility in Philadelphia and offered jobs in Massachusetts to 20 employees, but reports that only six accepted, suggesting confidence in the availability of employment.

Europe is a source of considerable concern but has not yet affected our contacts in a significant way. Two respondents report slower sales in Europe and one, a plumbing manufacturer, says Europe is "in a recession." Another contact revised down their sales growth forecast for 2012 by 2 percentage points to 4 percent to 5 percent—with the subtraction attributed to weakness in Europe—but at the same time indicated the risks had shifted to the upside.

Software and Information Technology Services

First District software and information technology services contacts report that the upward trends of early 2011 continued through Q4 2011 and into Q1 2012. Year-over-year revenue increases in the fourth quarter, ranging from 10 percent to over 25 percent, were generally on par with those seen in the third quarter. Contacts report upticks in demand across a number of sectors and geographies, with a few noting that activity in Europe exceeds their expectations. Growing workloads have led most contacts to continue to add to their headcounts. Indeed, one contact is on track to expand its workforce by over 20 percent in 2012; another, by contrast, reports a modest decrease, with a number of management positions being eliminated in an ongoing realignment. Two contacts say they have increased capital and technology spending relative to a year ago in order to build office space in Massachusetts. Prices are holding steady, with contacts reporting little to no downward pressure. The outlook among software and IT contacts is not appreciably different from that of three months ago; most are cautiously optimistic and expect revenue growth in 2012 to be in the range of 10 percent to 20 percent.

Staffing Services

New England staffing firms generally experienced a better-than-usual holiday season in 2011, with business picking up steam in early 2012. However, year-over-year revenue changes in the fourth quarter varied widely, from flat to up more than 25 percent. Labor demand is higher than three months ago, although a few contacts report signs of slowing in the light industrial sector. The growth in demand for permanent and temporary-to-permanent hiring has accelerated in recent months, with one contact noting that "clients are definitely ready to hire permanent employees." Notwithstanding stronger demand, the hiring cycle remains elongated, and high-end skill sets are still difficult to find. Bill rates and pay rates have gone largely unchanged since November but remain above their year-earlier levels. Looking forward, New England staffing contacts are generally more upbeat than they were three and six months ago, with many expecting their rate of growth to pick up through the end of 2012.

Commercial Real Estate

Commercial real estate contacts around New England describe leasing fundamentals as largely unchanged since the last report, although some note modest positive developments. One Boston contact reports that some tenants are increasingly willing to pay top dollar for prime office space in Boston's Back Bay, but cautions that such instances do not necessarily reflect a broad-based increase in office demand in greater Boston. Another Boston contact describes the city's office leasing market as mostly flat, but grants that rents may have increased marginally in recent months. A Providence contact is more upbeat, noting a healthy increase in deal volume and significant office absorption since the last report. By contrast, office leasing volume slowed somewhat in both Portland and Hartford relative to December. For retail space, Hartford's vacancy rate held up better than expected despite weak holiday sales at some large chains, while in Portland some long-vacant retail properties have seen a rise in inquiries by potential tenants. Greater Hartford's industrial market also saw a modest uptick in tenant inquiries in recent weeks, including signs of life in the area's moribund warehousing and distribution sector.

Boston continues to experience a surge of multifamily construction activity, with several large projects under way and more in the planning stages. Financing for such projects is available on attractive terms, with interest rates dipping below 4 percent in some cases. While investors and lenders are bullish on the multifamily sector and apartment rents have risen significantly in Boston in the past year, some contacts see a risk of overbuilding. Boston's science and technology sector is generating significant build-to-suit construction of laboratory/office space. At the same time, speculative office construction remains non-existent across the area, and one contact estimates that office vacancy rates would have to fall below 4 percent in Boston to warrant the creation of new office structures. While office construction is limited, the investment sales market for prime Boston office properties remains robust amid a highly liquid financing environment. Echoing similar comments in recent reports, however, some contacts perceive that sales prices for prime Boston office properties are too high in relation to expected fundamentals.

The outlook among contacts is tilted toward optimism. One Boston contact continues to expect only very slow improvement in leasing fundamentals in 2012, while another sees greater upside potential. Another contact expects Boston's multifamily construction boom to last another two to three years, but beyond that sees few prospects for any new construction activity. Our Providence contact expects solid improvement in fundamentals in 2012, barring risks to growth from local fiscal troubles and a possible spike in oil prices. The outlook in Hartford is moderately optimistic, but based more on sentiment than recent data. Portland's commercial market is expected to improve slowly in 2012, although prime office properties may see more robust gains.

Residential Real Estate

Sales of single-family homes and condominiums increased in New England in January, with most reports indicating low to moderate growth in sales compared to a year ago. Contacts say recent sales growth reflects market activity more accurately than in previous reports, when year-over-year increases were distorted by the expiration of the tax credit in mid-2010. Meanwhile, the median sale price of homes in First District markets declined compared to a year ago, which contacts attribute to distressed property sales. Concerns surrounding the impact of labor market conditions on housing demand have abated slightly. Respondents note foreclosures and delinquencies continue to affect the housing market significantly, but say these factors play less of a role in New England than in other parts of the country. Contacts expect low mortgage rates and improving employment outlooks to help fuel buyer activity. In the Greater Boston area, rent pressures coupled with low interest rates may push more buyers into the home and condo market.

Contacts expect to see continued year-over-year growth in home sales in the region, but do not anticipate significant improvements in the near term, with prices remaining flat at best. Contacts also note that exceptionally mild winter weather may prompt spring sales activity to begin earlier than usual.

SECOND DISTRICT--NEW YORK

The Second District's economy has expanded at a somewhat slower pace since the last report. Labor market conditions have been little changed in early 2012. Prices remain relatively stable, although business contacts in various industries indicate some increase in cost pressures. Manufacturers report further improvement in general business conditions since the last report. Retailers indicate mixed sales results for early 2012, though auto dealers indicate some slowing. Tourism activity has strengthened somewhat since the last report. Home sales have been steady to slightly softer since the start of the year, but the rental market has continued to improve. Commercial real estate markets have been mixed but slightly improved, on balance. Finance-sector bonuses are reported to be down considerably from last year's levels. Finally, bankers report increased loan demand, some further tightening in credit standards for commercial borrowers, and lower delinquency rates across all categories of loans except home mortgages.

Consumer Spending

Retailers report mixed sales results for January and early February. One retail contact in upstate New York reports strong sales in January, buoyed by continued strong demand from Canadian shoppers. By contrast, another major retail contact indicates some slowdown in sales, with mild weather hampering sales of winter gear in particular. Retailers report that prices continue to be stable overall. Auto dealers in upstate New York report that sales activity slowed in January, despite unseasonably mild weather. Sales of new vehicles were down 3-5 percent from a year earlier, though the weakness was not quite as pronounced as the figures suggest because January 2011 was a particularly strong month for comparison. Inventories and product availability have improved and are no longer much of a factor in restraining sales. Rochester-area dealers report continued strength in used car sales, but dealers in the Buffalo area describe such sales as sluggish. Wholesale and retail credit conditions remain favorable.

Consumer confidence continued to rebound in January. Both the Conference Board's survey of residents of the Middle Atlantic states (NY, NJ, PA), and Siena College's survey of New York State residents show confidence rising for the third straight month and reaching its highest level since last spring. Tourism activity has strengthened since the last report. New York City hotels report that occupancy rates continued to run moderately ahead of a year earlier, with room rates up modestly. After a sluggish December, Broadway theaters report that attendance and revenues surged more than 30 percent above year-earlier levels in January—apparently boosted by a combination of unseasonably mild weather and a larger number of shows now running. Business appears to have remained relatively robust into the first half of February.

Construction and Real Estate

The home sales market has been mixed but, on balance, slightly softer since the last report, while the residential rental market has continued to firm. Northern New Jersey's home sales market has stabilized but has yet to show any significant signs of a pickup; one industry contact surmises that underlying concern about pending foreclosures and their potential impact on the market continues to weigh on potential buyers. Apartment rental markets in New York City and northern New Jersey have continued to strengthen, with effective rents (factoring in the withdrawal of concessions) up 9-10 percent in Manhattan over the past year. However, New York City's co-op and condo market has softened somewhat thus far in 2012: in Manhattan and Brooklyn, apartment prices have held steady but sales volume has tapered off a bit, while in the other boroughs both home prices and volume have edged down. On a somewhat brighter note, real estate contacts in western New York State report continued gradual improvement in home sales activity.

Commercial real estate markets have been mixed but, on balance, somewhat improved since the last report. Office markets in New York City and on Long Island showed some further signs of strengthening in early 2012, with vacancy rates drifting down and asking rents increasing modestly. In contrast, northern New Jersey's market softened further, as vacancy rates rose to new highs, while asking rents drifted down. In Westchester and southwestern Connecticut, asking rents rose, even as office vacancy rates climbed to a multi-year high. Across upstate New York, office markets were mostly steady, though vacancy rates declined in the Albany area.

Other Business Activity

A major New York City employment agency specializing in office jobs reports little change in labor market conditions thus far in 2012; hiring activity and salaries remain flat. Uncertainty about the economic and regulatory outlook is said to be restraining hiring in the financial sector. An authority on New York City's securities industry indicates that Wall Street compensation remains under downward pressure and that bonuses are down 30 percent or more from last year's levels. Manufacturers across New York State report increasingly widespread improvement in business conditions in early 2012 and report steady growth in new orders, shipments and employment. Non-manufacturing contacts report a modest pickup in business activity and employment since the last report; both were reported to be flat during the final months of 2011. Manufacturers continue to report modest increases in both selling prices and prices paid. Non-manufacturing contacts also indicate modest increases in their selling prices but more widespread hikes in prices paid for inputs.

Financial Developments

Small to medium-sized banks report an increase in demand for all loan categories except consumer loans, for which demand was little changed. Bankers report a particularly widespread increase in demand for residential mortgages. Respondents also indicate a continued increase in demand for refinancing. Bankers' responses suggest a tightening of credit standards for commercial mortgages and commercial and industrial loans but no change for the other loan categories. No banker reports an easing of standards in any category. Respondents indicate a decrease in spreads of loan rates over costs of funds for all loan categories. Bankers also note decreases in average deposit rates. Bankers' responses point to steady delinquency rates on home mortgage loans but decreases in delinquencies for all other loan categories.

THIRD DISTRICT – PHILADELPHIA

Overall, business activity in the Third District has grown at a somewhat faster pace compared with the previous Beige Book. The overall sentiment has been more positive, although the very mild winter weather may have played a part. Since the last Beige Book, manufacturing activity has grown further with more broad sectors contributing to the gain. Retail sales maintained steady year-over-year increases. Motor vehicle dealers experienced unseasonably strong sales growth overall; however, results varied by state. Third District banks have reported slight growth in lending and continued improvement of credit quality since the last Beige Book. New home construction started the year strong with the warm weather assist. Commercial real estate contacts continued to report steadily improving markets for industrial, retail, and office space. Overall, service-sector firms reported continued growth. Price pressures have remained contained for most sectors, with little change from the last Beige Book.

Most firms have expressed a brighter outlook 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 the current surge in sales will carry into the spring selling season. Banking, real estate, and service-sector firms continue to plan for slow growth in 2012. In general, contacts seemed to prefer talking about recent positive trends rather than reiterating their uncertainty. However, their concerns continue to include the ongoing slow housing recovery, Europe’s economic problems, and federal budget indecisions.

Manufacturing. Since the last Beige Book, Third District manufacturers have reported further increases in new orders and shipments. Gains were widespread among the makers of food products, lumber and wood products, primary metals, instruments, and electronic equipment. A supplier to the broad industrial market stated that demand accelerated over the past several months and that the production capacity of many manufacturing clients was picking up. Contacts also reported that work was returning from overseas and that foundries were reaching capacity. The primary metals sector reported strong demand from the automotive and heavy equipment sectors. Among the makers of instruments and of electrical machinery, some contacts indicated that the level of demand seen recently has been the highest since near the beginning of the recession. Even the housing sector contributed to slight upticks in demand, according to contacts from two firms that produce housing-related products.

About nine out of 10 Third District manufacturers expect business conditions to improve or stay the same during the next six months; most expect their business to increase. This optimism permeates nearly every broad manufacturing sector. Increasingly, our contacts cite signs of stronger economic growth, although some of the expected increase reflects seasonal trends. Risks from Europe's problems and constraints from a weak housing market continued to add uncertainty to the outlook, according to some contacts. Expectations of capital spending and future hiring have strengthened since the last Beige Book.

Retail. Third District retailers reported little drop-off from the holiday shopping season — maintaining steady year-over-year sales increases. One industry contact reported better than normal sales for January; another reported perceptible, gradual improvement. All contacts conceded that the mild winter weather may have increased activity, although sales of winter clothes and gear have suffered. Price competition remains tough and shoppers are still very budget conscious, according to some contacts. Overall, retail contacts were a bit more optimistic but remain cautious.

Auto sales strengthened further in January and February, especially for Pennsylvania dealers. New Jersey dealers had a stronger December, which may have pulled sales forward from January; this was in part due to financial-sector workers spending their year-end bonuses. The outlook for auto sales remains very strong. Industry contacts indicated that some larger dealers have begun hiring, mostly in sales. More hiring is expected if robust sales continue into the spring season.

Finance. Overall, loan volumes were flat to up slightly in the Third District since the previous Beige Book. The issuance of home equity lines and home mortgages, including refinancing, increased the most, although some contacts were unwilling to write 30-year mortgages at the current low rates. Commercial real estate and C&I lending remained flat. Banking contacts reported low demand for some lines and early paydowns in others. Overall, credit quality continued to improve. One financial contact reported that the pace of loans going into delinquency has slowed, although the rate being resolved by foreclosure or workout remained flat.

Real Estate and Construction. Residential builders reported strong activity and sales in January and early February. One Pennsylvania builder said it was the strongest January in several years. A New Jersey builder closed deals that had been initiated in November and then dragged through December; the builder also reports a good backlog of sales. The mild winter weather helped with production and may have boosted traffic. Contacts cited a more active resale market as a positive trend but expressed concern over higher gas prices and increased compliance costs in the mortgage market. A residential broker also reported a stronger January than last year. Builders reported hiring some sales staff. The outlook among builders and brokers is modestly more positive. However, a broker cautioned that increased sales activity will first spur the shadow inventory to emerge and add to the active inventory, before the active inventory can begin to shrink.

Brokers and managers of nonresidential real estate have reported generally improving conditions for industrial, retail, and office space since the last Beige Book. The industrial market remains strong, and gains are spreading to the weaker South Jersey market area. High-end and low-end retail markets are especially strong. Mid-value retail, including grocery stores, which often locate in community shopping centers and street retail properties, is struggling, producing higher vacancies. Office market contacts reported that signs of pent-up demand are emerging that will lead to positive net absorption by year's end. The overall outlook for nonresidential real estate has improved since the last Beige Book, but growth will remain modest.

Services. Third District service-sector firms generally have reported further growth since the last Beige Book. A logistics firm reported very strong year-over-year results through the first six weeks of 2012. Despite some expressed concerns, the contact is hopeful that this strong pace is maintained or improves when "freight season" begins in March. Though somewhat skeptical of the sudden surge in confidence and market enthusiasm, one contact quipped, "I won't fight the tide!" Advertising dollars are expected to build through the year with the Olympics and the presidential election. One staffing firm reported a surprising dip in new orders compared with last year and a shift to short-term orders that are not indicative of growth. The majority of service-sector firms anticipate growth will steadily improve in 2012.

Prices and Wages. Price levels have remained contained since the previous Beige Book. Auto dealers and freight shippers still command favorable pricing power. Price pressures are mixed among manufacturing firms, with some firms unable to pass their higher costs along. Retailers and homebuilders continue to report tight margins. Wages are reported to be flat, and some firms have substituted lower cost temporary contract workers to reduce their overall wage bill. House prices are expected to fall further; however, nonresidential rents are stabilizing and concessions are scarcer.

FOURTH DISTRICT – CLEVELAND

The economy in the Fourth District grew at a moderate pace during the past six weeks. Manufacturers reported that business conditions have improved. Activity in residential and nonresidential construction picked up slightly. Comments by retailers about January sales were mixed, while auto sales dipped along seasonal trends. Activity in shale gas drilling and production expanded. Freight transport volume trended higher. And the demand for business and consumer credit improved slightly.

Our contacts indicated that hiring by manufacturers and energy producers has increased, though the recruitment of high-skilled workers remains difficult. Reports from staffing-firm representatives tended toward the negative. Two of our contacts noted a slight decline in the number of permanent job openings, while others observed a small drop in the number of placements. Wage pressures were largely contained. Price increases were mainly limited to metals and to materials and equipment used by energy producers and freight carriers.

Manufacturing. New orders and production at District factories were generally stable or moderately higher during the past six weeks. A few manufacturers told us that growth was being tempered by lessening demand from European customers. The majority of our contacts saw a moderate improvement in output compared to year-ago levels. Manufacturers are cautious in their outlook and anticipate modest gains in demand. Most steel producers and service centers reported that shipping volume was trending slightly higher. Demand is being driven by the oil and gas, transportation, and industrial equipment industries. Steel representatives are cautiously optimistic about shipments during the second quarter of 2012, and they expect the positive growth trend to continue. District auto production showed a substantial rise during January on a month-over-month and year-over-year basis. Increases were attributed, in part, to the abatement of supply chain issues.

Capacity utilization remains below normal for the majority of our contacts, with little change expected in the near term. A few manufacturers said that they have been building inventories to meet approaching seasonal demand; otherwise, inventories were balanced with orders. Nearly half of our contacts reported that their capital budgets for 2012 will be higher than in 2011. A slight rise in raw material prices was noted—especially for metals, with increases being passed through to customers. New hiring by manufacturers has become more widespread, though the average number of hires per company is fairly low. Those adding to payrolls found it difficult to recruit professional and high-skilled production workers. Wage pressures are contained.

Construction. The uptick we saw in single-family home construction toward the end of last year has abated somewhat. Nonetheless, builders reported that January sales were above year-ago levels and traffic and inquiries have picked up. Sales contracts were mainly in the move-up price-point categories. Builders' outlook for single-family construction can best be described as uncertain. In contrast, activity in multi-family construction and the conversion of existing properties to rental units is expected to be strong. One of our contacts noted a significant upturn in remodeling and maintenance. Little movement was seen in the list prices or discounting of new homes. A few builders commented that they would like to increase their spec inventory, but they are unable to obtain financing. Employment and wages were stable.

Activity in nonresidential construction for small to medium-size contractors has improved during the past few weeks. Inquiries have shown a modest increase, and backlogs are starting to grow. Construction contracts were primarily with industrial and retail customers. One contact described pockets of significant activity in large commercial construction projects across the District, noting particular strength in northeast Ohio. The outlook by small to medium-size builders has brightened since our last report. One contractor observed that while business is slowly returning to pre-2008 levels, profit margins are still very tight compared with this point in past recoveries. Other than rising prices for steel and drywall, the cost of building materials was steady. We heard two reports about project financing being easier to obtain. Payrolls were little changed, but they are expected to rise slightly in the near future.

Consumer Spending. Reports on January retail sales were mixed. According to several of our contacts, the warm winter weather is negatively impacting purchases of seasonal merchandise. However, products used outdoors, such as sporting goods, are selling better than expected. Sales for the first quarter of 2012 are generally expected to improve over prior-year levels, mainly in the low- to mid-single digits. Looking at vendor pricing, reports were also mixed. Retailers told us that lower costs attributable to declining cotton prices were offset by a rise in overseas labor costs. Retailers are satisfied with their inventories except for cold-weather apparel, which is higher than desired. Capital budgets for 2012 will be slightly greater than in 2011 for a majority of our contacts. Outlays will be used mainly for technology enhancements, remodeling, and new store construction. Payrolls at existing stores were stable.

Auto dealers reported a slowdown in new-vehicle sales during January that followed normal seasonal trends. On a year-over-year basis, sales were somewhat higher. A few dealers noted that their inventories are now on the high side but are manageable; others said that inventories are light. The outlook for 2012 was generally optimistic. However, several of our contacts were uncertain about whether or not the sales increases seen during 2011 would be repeated this year. Purchases of used vehicles showed a modest improvement, but inventories were low and prices elevated. On the financing side, interest rates remain competitive, and at the same time it is difficult to arrange financing for customers with low credit scores. Auto dealers looking to hire reported that it is not easy to find qualified candidates, especially sales representatives and service technicians.

Banking. Demand for business credit was described as either stable or slightly higher. Any drop-off was attributed to seasonal factors. Requests are being driven by commercial real estate, including spec building, and healthcare. On the consumer side, most of our contacts said that installment loan activity is flat, although auto lending (direct and indirect) continued to show strength. A few bankers reported a decline in the use of credit cards or home equity lines of credit during January. Some stabilization in interest rates for business and consumer credit was observed. In the residential mortgage market, real estate appraisals remain on the conservative side, and a majority of applicants are looking to refinance. No changes were made to loan application standards. Delinquencies were steady or declined across loan categories. Overall core deposits grew, with continued runoff from CDs into more liquid assets. Payrolls were stable, and little hiring is expected in the near term.

Energy. Conventional oil and natural gas drilling and production were generally flat since our last report, with little change expected in the upcoming weeks. Our contacts attributed these conditions to eroding natural gas prices and the regulatory environment. Well-head prices for oil were mainly steady. We heard two reports of energy companies redeploying drilling resources from dry gas to the wet gas areas of the Marcellus shale in Pennsylvania and West Virginia. The Ohio Department of Natural Resources has issued 32 Utica shale drilling permits since January 1 and 39 Utica wells are currently being drilled in Ohio. The outlook for coal production during 2012 is similar to 2011 levels. However, output may decline due to lessening demand from electric utility companies and offshore markets. Spot prices for metallurgical and steam coals continued to decline. Almost all of our contacts reported upward pressure on the cost of production equipment and materials. Energy payrolls are trending higher, especially in shale gas. A few small oil and gas producers are experiencing wage pressures brought on by competition from large firms engaged in shale gas exploration and production.

Transportation. Freight transport volume has been trending higher during the past few weeks, and for the month of January it was above year-ago levels. Strong demand was seen from automotive, food, and shale gas producers. Our contacts expect volume to grow at a moderate pace during 2012. We continued to hear numerous reports about rising prices for parts, diesel fuel, and other materials. Most of the cost increases were recovered via fuel surcharges and rate adjustments when contracts came due. Capital outlays reached targeted levels for 2011. Almost all of our contacts expect to increase their capital budgets during 2012 over prior year amounts for fleet expansion, replacing aging equipment, and infrastructure improvements. One executive noted that his capital budget for 2012 will be at a pre-recession level. Operators reported hiring for driver replacement or adding capacity, although recruiting qualified drivers is difficult. Some wage pressure exists due to a tightening of the driver pool.

FIFTH DISTRICT–RICHMOND

Overview. District economic conditions improved in most sectors since our last report. Manufacturing activity expanded further in January and early February. Retail sales picked up and shopper traffic moved higher. Revenue growth at services-providing firms slowed, while most tourism businesses continued to post moderate gains. Likewise, bankers reported that lending to both residential and commercial customers increased slightly, although the level of demand remained low. Both residential and commercial real estate contacts cited moderate gains in sales and leasing activity during the last six weeks, even though the overall level of demand was weak. District employment improved somewhat, but both manufacturers and professional services firms continued to report problems finding qualified workers. Both manufacturing and services prices received were up only moderately from our last report, while prices paid moved significantly higher.

Manufacturing. District manufacturing activity advanced further in recent weeks. An automotive parts manufacturer reported that sales remained strong, and the recent strength of sales had driven an increase in his capital spending for equipment. A textile producer saw a general pick up across all sections of his business. He added that his supply of raw materials was tight, due to the low levels of his suppliers' inventories at the end of the year. Similarly, an electrical components manufacturer described business as still reeling from the spillover effects of the flooding in Thailand; he stated that his backlog of orders was large because his suppliers were unable to fill his orders. A furniture manufacturer cited improvement in the past few months, noting that his business usually picks up with rising consumer confidence. Moreover, a fabricated metal producer indicated that business was strong, with January orders and shipments increasing by double-digit rates over December levels. According to our recent survey, raw materials prices grew moderately from a month ago, while finished goods prices grew at a slightly quicker rate than a month earlier.

Retail. Retail sales rose and shopper traffic increased in recent weeks. Big-ticket sales were generally flat, however, according to most contacts. Auto dealers in South Carolina and Maryland experienced a slowdown in sales since our last report. In contrast, a car dealer near Washington, D.C. said that his establishment was hiring more sales associates to handle the increase in customer traffic and sales. Store managers at big box department stores across the District indicated that sales were steady or slightly stronger, and remarked that television sales blipped up just before the Super Bowl. However, the warm winter resulted in mark-downs on a large quantity of winter apparel. A central North Carolina store manager reported that spring and summer apparel had arrived, but the lingering stock of winter clothing had left little room on the floor for new merchandise. According to our recent survey, home and garden retailers reported a pick-up in sales, as did department store wholesalers. Retail prices continued to rise at a moderate pace since our last report.

Services. Revenues grew a bit more slowly overall at services-providing firms over the last month. Contacts at professional, scientific, and technical businesses gave us somewhat mixed reports. However, an executive at a brokerage firm thought that account statements were “looking better.” Recruiters in the Carolinas reported increased demand for permanent employees, particularly “technical talent.” An executive at a nationwide trucking firm stated that freight demand increased over the last month. Finally, a North Carolina hospital contact reported a major increase in capital spending to meet new healthcare reform requirements. Prices at services firms moved up at a restrained pace.

Finance. Lending to both residential and commercial customers increased marginally across the District over the last six weeks. However, the level of demand for loans was often described as weak, and several bankers were still reporting little change since the end of last year. While most mortgage applications continued to be for refinancing, loan officers around the District reported a slight increase for home purchases. Also, the average size of loans increased. One banker in Richmond stated that investors, taking advantage of low prices and interest rates, were a key source of such mortgage lending in his market. An official for a large bank also stated that his bank remained very cautious about any consumer loan application, especially for purchasing a home. On the commercial side, several bankers extended more merger and acquisition loans. A loan officer for a regional bank said that his bank had increased its lending for new equipment as well as for refinancing. A Virginia banker reported a slight uptick in lending for inventory. However, other bankers stated that loan demand in those categories was flat. While most construction loans other than for multi-family buildings remained limited, several bankers reported an increase in loans for owner-occupied facilities and their furnishings (mostly to medical professionals). Credit standards remained tight, but most bankers reported that their lending targets were increasing this year, even though competition for quality loans was intense.

Real Estate. Residential real estate activity showed modest improvement since our last report. Indeed, some contacts suggested that the sector had moved beyond the bottoming-out phase. For example, lower inventory of both new and existing homes was reported in the D.C. and Richmond areas, with some builders beginning to sell and even build again. A source from North Carolina said that a housing development was successful due to a “rent-to-own” plan. He added that new construction activity was also starting to occur in the Research Triangle area. While most Realtors reported that sales were either flat or up slightly, housing prices generally continued to decline. Several agents attributed the drop in sales prices, in part, to short or distressed sales being used as comparables. They noted, however, that many buyers were avoiding short sales and foreclosed homes due to often a six to eight month delay in closings. 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 home sales over $1,250,000 were outperforming all other price ranges. He added that he was starting to receive multiple offers that were well above listing prices, and he expected this trend to continue through the spring selling season.

Commercial real estate activity improved slightly since our last report, especially for office space. A Realtor in the D.C. area reported that he had been very busy since the start of this year, but mostly with inquiries that had yet to turn into closed deals. He added that so far this year government-related activity was down. A Virginia real estate agent noted that while office building purchases remained weak, some clients had increased their leasing in hopes of purchasing at a later time. While office rents have stabilized in most areas of the District, many agents reported that concessions remained widespread. One Realtor said that, in order to retain struggling tenants, he had been making repairs and upgrades that would normally be left to the tenant. Retail leasing activity remained mixed, with one agent reporting that anchor stores at large malls were stable, but small boutiques in the same malls were having difficulty meeting their rent and some were closing. On the industrial side, data processing and distribution centers were a positive source of leasing activity, according to several agents around the District. While industrial demand generally remained weak, several contacts reported some improvement since the start of the year. An architectural firm reported an increase in demand related to site development, suggesting that industrial clients might be planning construction starts later this year.

Labor Markets. Assessments of labor market activity were somewhat more upbeat than in our last report. Several employment agencies stated that demand for temporary workers had increased and those contacts were optimistic about future demand. A Baltimore agent noted that the demand for temp workers had definitely increased, and his company was experiencing a pickup in recruitment demand for skilled and semi-skilled jobs in the manufacturing and distribution sectors. He added that the agency was beginning to see some upward pressure on wages for manufacturing and distribution center skills, as finding qualified workers remained difficult. A representative at a Richmond staffing agency reported that employers were starting to complain that they were not getting enough qualified applicants. He noted that even with growth in postings, matching of openings with qualified people continued to be challenging. According to our latest survey, District manufacturing employment improved over the last month, while wage gains were slightly lower than a month ago. Both retail and non-retail services employment picked up in recent weeks, while the pace of average wages in the service sector overall increased moderately.

Tourism. Tourism remained generally strong, with some contacts reporting further strengthening in recent weeks. A contact on the outer banks of North Carolina reported a good start to the year and strong vacation house rentals, with weekend travel up as a result of good weather. Businesses in that region expect a good tourism season ahead, supported by such scheduled events as music festivals, bike races, and marathons. A hotel general manager in the mountains of North Carolina, where weather was also mild this winter, noted an increase in bookings, and he expected modest growth to continue through the summer season. Elsewhere, several ski resorts have been adversely affected by the mild Mid-Atlantic winter, and a resort in western Virginia will cut jobs to reduce costs, according to an executive.

Agriculture. Unseasonably mild temperatures, coupled with below-normal precipitation held back crop yields in some areas of the District. In North Carolina, tobacco and cotton yields reached only 50% of historical averages as a result of damage caused by severe weather last summer. In South Carolina, dry weather late in the season significantly reduced what was previously expected to be an outstanding cotton crop. Moreover, results of our recent agricultural credit survey indicated that farmland values were slightly below the previous quarter and year-ago levels. In contrast, ample amounts of rain throughout Virginia, combined with above-normal temperatures, resulted in above-average yields and near-record commodity prices for most grain producers. An analyst in the Commonwealth described 2011 as a solidly profitable year for most grain producers due to increased export demand.

SIXTH DISTRICT – ATLANTA

Summary. Sixth District business contacts described economic activity as expanding at a somewhat stronger pace in January and early February compared with late last year. Expectations were generally more positive, although firms continued to express caution with regard to the outlook.

Retailers noted that sales and traffic increased compared with a year ago and auto sales remained robust. Hospitality contacts, with the exception of cruise lines, reported strong bookings for this year. Homebuilders and brokers reported that unseasonably warm weather has helped bolster residential real estate activity by pulling some activity forward. Nonetheless, overall home sales and construction levels remained weak apart from the generally robust multifamily sector. Manufacturers and transportation contacts continued to note positive activity on balance. Bankers reported a modest improvement in loan activity at larger institutions. More firms reported increased hiring, although contacts continued to signal they approached hiring decisions very cautiously. Concerns over increased input costs generally eased as most firms reported that input prices leveled off. Only a few contacts reported having significant pricing power.

Consumer Spending and Tourism. District retail contacts noted that sales and traffic in January and early February were up from a year ago. Final holiday sales reports were generally positive as slightly over half of our retail contacts indicated that sales were better than last year. Roughly half noted that inventory levels were up slightly compared with last month, and most were satisfied with current levels. Most merchants expect overall sales to improve over the next three months. Retailers also expect overall sales to improve modestly over the course of 2012. Auto dealers noted that the warm weather experienced in January likely boosted sales for the month, and they anticipate new vehicle sales to continue to improve.

Hospitality contacts reported that tourism activity remained strong and most were optimistic regarding the outlook for leisure and hospitality spending in 2012. Attendance for major conventions increased and bookings and lead volume rose, according to business travel contacts. However, there were concerns about higher fuel costs and the adverse impact it may have on drive-to traffic at regional tourist destinations. Cruise line bookings have suffered in the wake of the maritime disaster in Italy.

Real Estate and Construction. The majority of District residential brokers reported that home sales accelerated in January and early February and stand above levels from the same time period last year. However, reports from Florida brokers were more mixed. Contacts noted that inventory levels continued to decline on year-over-year basis and home prices were nearly even with a year ago. The outlook among brokers for sales growth continued to improve with most anticipating modest year-over-year gains over the next several months.

Most District homebuilders indicated that new home sales and construction activity growth, measured year-over-year, increased slightly during January and early February; however, several contacts noted that unseasonably warm weather in the region likely pulled some activity forward. Builders continued to report downward pressure on home prices while new home inventories remained below year-earlier levels. Contacts noted that multifamily construction remained robust. Over the next several months, homebuilders anticipate new home sales and construction to be flat to slightly up compared with a year earlier.

Most commercial real estate contacts indicated that conditions continued to improve slowly in the region. Contractors noted a slight improvement in demand but the market remained very competitive and activity remained at low levels. Brokers continued to report modest improvements in demand for space in several parts of the District with some noting that rent concessions had abated. The outlook among contacts was similar to our last report with most contractors and commercial real estate brokers anticipating that construction activity will improve slowly during 2012.

Manufacturing and Transportation. Manufacturers across the region noted more positive results in January and early February compared with previous reports. In particular, firms reported increased levels of new orders along with improved expectations for future orders. Most contacts also signaled that inventory levels have risen in line with these improved order expectations. Three major auto manufacturers announced plans to increase production at their facilities in Alabama and Georgia, and a foreign automaker also noted that a parts manufacturing facility will relocate to the Sixth District.

Transportation contacts reported that inventory-building trends appeared to be similar to the end of last year. A freight forwarding company noted that orders were stable and a large railroad firm continued to report strong increases in auto shipments. Coal inventory levels declined at the end of last year, but in recent months have exceeded targeted levels as mild weather and low natural gas prices dampened demand for coal-fired electricity generation. Contacts noted that both imports and exports have leveled off since the beginning of the fourth quarter of 2011, although trade with Latin America continued to experience modest growth.

Banking and Finance. Liquidity levels remained high at regional banks as most continued to experience high deposit balances and soft loan demand. Several large banks noted some growth in outstanding C&I loans; in part, a result of loan acquisitions from other institutions and continued growth in areas such as energy and healthcare. Bankers also reported increased consumer lending attributed mainly to auto financing. Contacts remain cautious regarding the economic environment and most are forecasting low loan growth in 2012, but do not expect further deterioration in capital levels.

Employment and Prices. Firms indicated that hiring expectations going into 2012 are better than they had been going into 2011. However, many contacts noted that plans to increase profits still revolved around further efficiency gains from improvements in internal operations. Several businesses reported plans to increase payrolls because they expect an improvement in sales going forward. They appeared to have regained their customer base, and these expectations seem to be transmitting into plans for expansion. Some firms still indicated a preference for contract workers for short-term projects, but several expressed increased willingness to consider them for permanent positions. Aside from optimism about future sales, some contacts also reasoned that their current employees do not always possess the necessary skills, leaving firms with no choice but to hire new workers.

Concerns over increased input costs eased further, although several manufacturing firms did note an increase in commodity prices since the last report. Few contacts reported having significant pricing power. According to the firms surveyed in the Atlanta Fed's January Business Inflation Expectations (BIE) survey, unit costs were expected to rise 1.8 percent for the year ahead, down slightly from December expectations. Firms continue to operate in an environment of below normal sales and depressed margins, according to the survey, though both have been slowly improving since October of last year.

Natural Resources and Agriculture. Contacts in the energy exploration sector noted that recent lease auctions have helped stimulate more industry optimism, contributing to an improvement in investment conditions. Regional gasoline inventories remained above their seasonal norms for this time of year as national and global gasoline consumption remain relatively soft, although contacts reported ongoing concern about the impact of geopolitical uncertainty in some OPEC countries on energy prices going forward.

Significant rains have eased drought conditions in parts of Alabama, Mississippi, and Louisiana, while parts of Georgia and Florida have seen drought conditions worsen. Mild temperatures throughout the region are of concern to peach and other fruit crop growers hoping for adequate conditions for the current growing season. On a year-over-year basis, prices received by farmers were higher for many of the region's agricultural products. Contacts reported that some farmers in Alabama and Georgia were reviewing their planting plans in light of their concerns of labor shortages.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District continued to expand at a moderate pace in January and early February. Growth in consumer spending slowed, but business spending increased. Manufacturing production increased, and construction, while still subdued, was also up. Credit conditions improved. Price increases slowed, while wage increases remained moderate. Prices for corn, soybeans, wheat, hogs, and cattle moved higher, while milk prices drifted lower.

Consumer spending. Growth in consumer spending slowed in January and early February. Contacts indicated that activity was boosted by clearance sales and noted an increase in consumers turning to discount retailers. There was also some isolated improvement in the luxury segment, with jewelers and high-end boutiques reporting higher sales. However, the mild winter depressed sales of apparel and other weather-related items, and contacts noted that many retailers were running heavy promotions on unsold winter merchandise to make room for spring inventory. Auto sales were up in January, but down slightly in early February reflecting in part a decline in incentives.

Business spending. Business spending increased in January and early February. Most retailers indicated their inventories were at comfortable levels. However, a number of auto dealers continued to report lower than desired levels for some models. Several manufacturers also noted that they were tightly managing their input inventory levels to avoid being caught off-guard were commodity prices to decline further or activity slow substantially from the pace of the fourth quarter. Capital spending increased, with reports of capacity expansions in manufacturing and renovations of existing facilities in the retail sector. Labor market conditions improved, although hiring remained selective. A staffing firm reported an increase in growth in billable hours that was largely driven by gains in industrial and office positions. Contacts indicated that many manufacturers were increasingly moving away from contracting with temporary agencies to direct hiring, focusing on higher skilled positions where attracting job candidates has remained difficult. Long-term unemployment remained elevated. Labor market analysts reported that it was becoming increasingly difficult for these workers to find a job, and several contacts indicated that they were hesitant to hire individuals who had been out of work for an extended period of time.

Construction/real estate. Construction activity was up slightly in January and early February. Multi-family construction continued to be an area of strength. In contrast, single-family construction remained weak, and homebuilders indicated that it will likely continue to be until home prices stabilize from their recent declines. Nonresidential construction continued to trend up moderately, although a contact noted a decline in funding for new public infrastructure. Demand for industrial facilities increased, especially in the automotive sector as suppliers are expanding to meet the higher pace of vehicle production. Commercial real estate conditions continued to improve with vacancy rates edging lower from their elevated levels. The demand for office space picked up and rents increased. In contrast, contacts continued to report excess availability of retail space.

Manufacturing. After a strong close to 2011, manufacturing production increased further in January and early February. Contacts in the sector remained cautiously optimistic about 2012. Exporters continued to benefit from advantageous terms of trade, and contacts noted an increase in interest by foreign manufacturers in moving production to the U.S. as well as increasing utilization of domestic suppliers. The auto industry continued to be a source of strength. Contacts expected that auto sales in 2012 would hold near the pace seen in January, which, while still below pre-recession levels, would mark another year of recovery for the industry. Demand for heavy equipment also remained strong, led by robust activity in the energy and mining sector. An aging fleet of heavy trucks and machinery and tightening emission standards for such equipment were noted as reasons for the likely continued strength in demand in 2012. Manufacturers of specialty metals also reported solid order books and robust quoting activity. Outside of these industries, however, activity was again weaker. Manufacturers of household goods and building materials continued to experience soft demand, although a few noted a small improvement since the beginning of the year.

Banking/finance. Credit conditions were slightly improved from the previous reporting period. Financial market volatility declined and risk premia moved lower across a number of asset classes. Improvements in the availability of credit were noted for both subprime auto lending and commercial real estate, particularly for large apartment buildings. Banking contacts indicated that loan growth continued at a moderate pace with demand from larger businesses being stronger than that from small to mid-sized companies. Even though contacts thought the economic outlook was more positive, they indicated that borrowers and investors remain cautious, citing uncertainty about future tax code changes and risks abroad, in particular those emanating from Europe. That said, concerns about Europe were reported to have become milder in recent weeks.

Prices/costs. Cost pressures were largely unchanged in January and early February, but the volatility of commodity prices remained a concern for many contacts. Natural gas prices remained at historic lows, while prices increased for fuel and metals such as copper and brass. Raw materials surcharges declined and lead times shortened with a few exceptions such as carbide and some hydraulic products. Wholesale price changes were mixed by category, but little changed on balance.

Most of the cost increases were being passed on to consumers, but retailers reported that, overall, pricing power remained limited. Wage pressures continued to be moderate, with most contacts indicating that wage increases were expected to keep pace with inflation. Contacts continued to report a shortage of skilled manufacturing workers, and noted that increased competition among firms had led to some upward pressure on their wages.

Agriculture. Corn, soybean, wheat, hog, and cattle prices rose during January and early February. Input costs for agriculture continued to increase, led by sharply higher rental rates for cropland. The increases in these costs have pressured farmers' margins. In order to offset the risks of price declines or poor harvests, farmers have been willing to spend more on revenue insurance policies. Estimates of corn stocks have come down and are below where they were a year ago. Given current rates of use, the expected supply of corn in stock just before the next harvest is around three weeks, about as tight as last year. Cattle operations are working to build herd sizes, even though bid prices for cattle are very high. Contacts expected farmers to boost their capital expenditures in 2012 compared with 2011.

Eighth District - St. Louis

Summary

Economic activity in the Eighth District has continued to expand at a modest pace since the previous survey. Manufacturing activity has continued to increase, and activity in the services sector has also increased. Residential real estate activity has continued to decline, while commercial real estate market conditions have been mixed. Overall lending at a sample of large District banks saw little change during the fourth quarter of 2011.

Consumer Spending

Contacts reported that retail sales in January and early February were up slightly, on average, over year-earlier levels. Half of the retailers saw increases in sales, while 37 percent saw decreases and 13 percent saw no changes. Roughly 71 percent of the retailers reported that sales levels met their expectations, 17 percent reported that sales were below expectations, and 12 percent reported that sales were above expectations. About 21 percent of the retailers reported that their inventories were too high, while 12 percent reported that their inventories were too low. The sales outlook for March and April was mostly optimistic: 65 percent of the retailers expect sales to increase over 2011 levels, while 13 percent expect sales to decrease and 22 percent expect sales to be similar to last year's sales.

Car dealers in the District reported that sales in January and early February were up slightly, on average, compared with last year's sales. About 48 percent of the car dealers surveyed saw increases in sales, while 32 percent saw decreases and 20 percent saw no changes. Twenty-eight percent of the car dealers reported that used car sales had increased relative to new car sales, while 24 percent reported the opposite. Thirty-two percent of contacts reported an increase in sales of low-end vehicles relative to high-end vehicles, while 8 percent reported the opposite. Thirty-two percent of the car dealers surveyed reported that their inventories were too low, while 24 percent reported that their inventories were too high. The sales outlook for March and April was mostly optimistic: 76 percent of the car dealers expect sales to increase over 2011 levels, while just 4 percent expect sales to decrease and 20 percent expect sales to be similar to last year's sales.

Manufacturing and Other Business Activity

Manufacturing activity has continued to increase 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 furniture, automobile, food, stone product, air conditioning component, and medical device manufacturing industries announced plans to increase existing operations and hire new workers. Additionally, firms in the automobile parts and primary metal manufacturing industries announced plans to open new plants and hire workers. In contrast, firms in the faucet, chemical, paper product, and lawn mower manufacturing industries announced plans to close plants and lay off workers.

Activity in the District's services sector has continued to increase since our previous report. Firms in information technology services, pest control services, distribution services, health services, and leisure services announced plans to expand operations and hire new workers. In contrast, contacts in freight transportation services, education services, government services, and business support services announced plans to decrease operations and lay off workers.

Real Estate and Construction

Home sales continued to decline throughout most of the Eighth District. Compared with 2010, total 2011 home sales were down 2 percent in Memphis, 3 percent in St. Louis, 4 percent in Louisville, and 6 percent in Little Rock. Residential construction also continued to decrease throughout the District. Total 2011 single-family housing permits decreased in the majority of the District metro areas compared with 2010. Permits decreased 15 percent in Louisville, 20 percent in Little Rock, and 21 percent in St. Louis. However, permits increased 1 percent in Memphis.

Commercial and industrial real estate conditions were mixed throughout the Eighth District. Contacts in Memphis reported weak commercial real estate loan demand but stable industrial real estate activity. Contacts in Louisville reported that commercial real estate activity has increased since December 2011 while contacts in St. Louis noted an increase in fourth-quarter 2011 office and industrial vacancy rates compared with the third quarter of 2011. Commercial and industrial construction also varied throughout the District. Contacts in south central Kentucky noted that commercial construction is showing improved activity with recent business additions and relocations in the region. Contacts in western Kentucky, however, noted that construction projects are very scarce, with the exception of Owensboro-Daviess County, which has a significant number of public and private projects underway. Contacts in northwest Arkansas noted an increase in commercial building construction in the Bentonville area, while contacts in Little Rock continued to report overall weak construction activity.

Banking and Finance

A survey of senior loan officers at a sample of large District banks showed little change in overall lending activity during the fourth quarter of 2011. During this period, credit standards and demand for commercial and industrial loans remained unchanged. Credit standards for commercial real estate loans also remained unchanged. Demand for these loans ranged from unchanged to moderately stronger. Meanwhile, credit standards for consumer loans remained unchanged, while demand ranged from moderately weaker to about the same. Credit standards for prime residential mortgage loans ranged from unchanged to somewhat eased, while demand for these loans ranged from about the same to moderately stronger.

Agriculture and Natural Resources

Yields for corn, sorghum, hay, soybeans, and cotton were lower in 2011 compared with 2010, while yields for winter wheat, rice, and tobacco showed positive gains. Monthly output of commercial red meat for December 2011 decreased compared with November 2011; the District's total live weight and number of chickens slaughtered also decreased during the same period. The District's coal production for January 2012 was 1 percent lower compared with January 2011. Similarly, as of early February, year-to-date coal production was 4.2 percent lower than the same period in 2011.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew at a firm pace since the last report. Strength was noted in consumer spending, professional services firms, commercial and residential real estate and construction, manufacturing, energy and mining, and agriculture. Lack of snowfall reduced tourism activity. Some more firms announced plans to expand hiring, while wage increases were modest. Overall prices were level, but some increases were noted.

Consumer Spending and Tourism

Consumer spending was solid. Same-store sales at a Minnesota-based retailer increased about 4 percent in January compared with a year ago. A Minneapolis area mall manager reported relatively strong traffic during January. A Minnesota-based restaurant and bar chain reported that same-store sales were off to a good start in January and February. A fast food chain recently announced plans to add more restaurants in Minnesota. A representative of an auto dealers association in Montana noted that recent vehicle sales were higher than a year ago and that availability of new and used cars has improved. Repair shops in eastern Montana were very busy repairing oil-drilling-related vehicles. However, due to the surprisingly mild winter, many District auto repair shops reported a decrease in business because of fewer snow- and ice-related accidents.

Tourism was down due to low snowfall in much of the District. The lack of snow in Minnesota and Wisconsin has stymied snowmobiling and cross-country skiing. Snowmobile dealerships reported a sharp drop in sales from a year ago. However, a Minnesota travel company reported strong demand for both corporate and leisure travel in January; interest in traveling to Europe and other overseas destinations was up. Another travel agency noted that recent corporate travel sales were up almost 25 percent compared with a year ago.

Construction and Real Estate

The unusually warm weather aided construction activity. The value of commercial building permits in the Sioux Falls, S.D., area was up in January from January 2011. A major Minnesota-based commercial real estate company expects more construction of retail and warehouse structures. Residential construction increased from a year ago. The value of residential building permits increased significantly in the Sioux Falls area in January. The number of single-family building permits increased in Minnesota and North

Dakota in December 2011, compared with December 2010. Multifamily construction in the Minneapolis area is in a "boom," according to a major real estate firm.

Commercial real estate market activity increased. A large warehouse property manager noted increased transaction activity over the past few months. A major Minnesota-based broker noted increased leasing of office space. Home sales in January were up from the same period a year ago in the Minneapolis-St. Paul area, and the inventory of homes for sale continued at low levels. Several brokers noted that the low end of the market appeared to shift to a "sellers' market." The multifamily market continued to strengthen in the fourth quarter of 2011 as rents increased and vacancy rates decreased in many markets, according to a real estate research firm.

Services

Activity at professional business services firms increased at a solid pace since the last report. Of the 33 firms that responded to a mid-February ad hoc survey, 63 percent saw revenues increase over the past three months, while only 16 percent experienced revenue drops. Over the next three months, 59 percent expect increased revenues and only 6 percent expect sales to drop. A human resources consulting firm noted increased activity with "more proposals and opportunities." An architectural firm noted increased activity and demand, but said the competition remains "fierce."

Manufacturing

District manufacturing expanded at a firm pace. A January survey of purchasing managers by Creighton University (Omaha, Neb.) found that manufacturing activity increased in Minnesota and the Dakotas. An electrical equipment producer is opening a new facility in Minnesota. An aerospace firm announced plans to locate a plant in Montana. A producer of automotive cooling systems is expanding operations in South Dakota.

Energy and Mining

Activity in the energy and mining sectors continued at strong levels. District oil and gas exploration increased since the last report. In Montana, construction began on what will be the state's largest wind energy development. In addition, regulators in Montana approved an $86 million wind energy project. Iron mines in northern Minnesota were operating at near capacity. A Canadian mining company discovered large iron and titanium deposits near Duluth, Minn., but any mining operations are several years away.

Agriculture

Agriculture remained strong. January prices received by farmers for corn and cattle increased. Prices declined somewhat for wheat, soybeans, hogs, dairy products, eggs and poultry, but all prices were above their January 2011 levels. According to preliminary results from the Minneapolis Fed's fourth-quarter (January) survey of agricultural credit conditions, 67 percent of District lenders reported that farm incomes increased in the previous three months; 10 percent reported decreases. However, drought conditions spread in Minnesota, the Dakotas and District portions of Wisconsin. Low snowfall combined with erratic temperatures were having an uncertain effect on the District's winter wheat crop.

Employment, Wages and Prices

Some more firms announced plans to expand hiring. An airplane manufacturer announced plans for a new facility in northwestern Wisconsin that will initially create 300 jobs. A marketing company plans to expand its operations in Minnesota and eventually hire 200 more workers. Also in Minnesota, a clothing supplier will add 150 employees at a new facility, and a boat manufacturer expects to rehire former employees laid off during the recession.

However, some employment cutbacks were announced. A Minnesota-based food retailer will cut about 200 jobs at the company's headquarters. A bank will lay off almost 70 employees at an auto-debt-collection unit in South Dakota.

Wage increases were modest. Workers at two food operations recently agreed to a new contract that includes some wage increases over a five-year period. Bank directors recently reported that business contacts expected wage increases between 2 percent and 3 percent in 2012 compared with 2011 after remaining level over the past couple of years. Larger increases were noted in the oil-drilling area of western North Dakota and eastern Montana, particularly for welders who were in short supply.

Overall prices were level, but some increases were noted. Minnesota gasoline prices were up 15 cents per gallon since early January. Bank directors noted that health insurance costs were up between 6 percent and 8 percent over a year ago, with some reports of steeper increases.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy expanded moderately in January and early February. Despite a seasonal decline, consumer spending was stronger than expected and retailers anticipated rising sales in coming months. District manufacturing activity rebounded with stronger expectations for production, hiring, and capital spending. Residential and commercial real estate activity improved, and District contacts were optimistic regarding spring sales and construction activity. District banks reported steady loan demand and improved loan quality. Agricultural growing conditions improved with recent precipitation, and farmland values soared with high commodity prices. High crude oil prices fueled a rebound in District drilling activity with further gains expected during the next three months. More contacts reported passing higher raw materials prices through to finished goods prices. Many District contacts planned to hire additional workers during the next quarter. Still, wage pressures remained largely subdued except for specialized positions in high-tech and energy industries.

Consumer Spending. Consumer spending weakened in January and early February but was expected to rebound in the months ahead. District retailers reported a slowdown in sales after the holidays as consumers shopped for bargains. Still, store owners noted sales exceeded expectations by rising above year-ago levels and many remained optimistic that sales would improve in the coming months. Clearance items moved quickly, and appliance sales ticked up while demand for furniture and electronics was weak. Auto dealers reported a post-holiday lull in sales that boosted inventory levels, especially for SUVs and more expensive car models. However, auto dealers expected stronger demand for smaller, fuel efficient cars would spur sales in the coming months. Some dealerships were hiring salespeople and service technicians. Restaurant sales were down from the previous survey but remained higher than year-ago levels and were expected to pick up with warmer weather. Tourism activity slowed after the holidays and below-average snowfall hurt bookings at Colorado ski resorts. District hotel owners, however, reported an uptick in occupancy at slightly higher average room rates and expected business to strengthen further during the next three months.

Manufacturing and Other Business Activity. Manufacturing activity rebounded, and sales at high-tech service firms rose sharply while transportation activity edged down in the survey period. Manufacturing activity expanded at both nondurable and durable goods factories, particularly those producing chemicals, fabricated metals, and aircraft equipment. After falling in late 2011, the volume of new orders and shipments rebounded in January and February and finished goods inventories held steady with increased production. Plant managers expected production, hiring, and capital spending to strengthen during the next six months. The high-tech industry reported a sharp increase in sales, and some contacts were worried about losing future business due to a shortage of specialized labor, particularly software developers. Transportation activity slowed further but was expected to improve in the months ahead. Trucking firms remained concerned about high fuel costs and a lack of qualified drivers.

Real Estate and Construction. Residential and commercial real estate activity picked up in January and early February. Existing home inventories declined as lower prices spurred a modest increase in sales, particularly for low- and mid-priced homes. Real estate contacts expected that a seasonal upswing in sales this spring would stabilize home prices in the coming months. Residential mortgage lenders reported an uptick in loans for home purchases and higher average loan amounts while home loan refinancing activity was expected to slow further. Residential lot prices fell further, and new home starts were on par with year-ago levels. Builders planned to ramp up construction in the coming months and sales rose at building supply firms. New commercial construction increased and was expected to rise further with more projects in the pipeline. Commercial real estate prices and rents dipped during the survey period but were expected to firm as vacancy rates improved. After edging up in January and early February, commercial real estate sales were expected to strengthen further during the next few months. Developers reported little change in access to credit.

Banking. In the recent survey period, bankers reported generally steady loan demand, slight improvements in loan quality, and a modest increase in deposits. Most respondents reported steady loan demand for commercial and industrial loans and commercial real estate loans. However, loan demand was slightly weaker for consumer installment loans and residential real estate loan demand softened with slower home mortgage refinancing activity. Bankers reported that interest rates on commercial and industrial loans declined further. Credit standards remained largely unchanged in all major loan categories, and most respondents reported stable or increased deposits. The majority of bankers reported improved loan quality compared with a year ago, and many bankers expected loan quality to improve further during the next six months.

Agriculture. Agricultural growing conditions fluctuated with precipitation levels. After warm, dry weather in January, recent precipitation kept agricultural growing conditions from deteriorating further. The winter wheat crop remained in fair to good condition. Soil moisture levels were low across the District with western Oklahoma and Kansas experiencing severe drought. Ranchers in the southern Plains continued to liquidate herds due to poor pasture conditions and record high cattle prices. In the northern Plains, the lack of harsh winter weather allowed cattle feedlot operators to reduce feed usage and still maintain livestock growth. District contacts expressed concerns about 2012 profit margins due to rising feed, fuel, and fertilizer costs. Still, a rebound in crop prices fueled additional gains to record high farmland values and more bankers expected farmland prices to move higher in the next few months.

Energy. Energy activity rebounded in January and early February and District contacts expected additional expansion in coming months. After slowing at the start of the year, District drilling rig activity rebounded with higher crude oil prices. Energy contacts, however, noted that a lack of equipment and services and qualified labor were constraints on current drilling activity. District contacts expected crude oil and natural gas prices to hold at current levels and anticipated further expansion in oil drilling activity. Bucking national trends, Wyoming’s coal production rose above year-ago levels in January and early February. Ethanol profits dropped sharply as ethanol prices declined with the year-end expiration of the federal ethanol subsidy.

Wages and Prices. Wage pressures remained low during the survey period, and more contacts reported raising finished goods prices in light of higher raw materials costs. More businesses planned to hire workers during the next three months, and contacts in low- and moderate-income communities reported a slight improvement in job opportunities. However, most firms did not plan to raise wages except for specialized positions, particularly in the high-tech and energy fields. After edging up during the past survey period, more retailers expected to raise selling prices over the next three months. Restaurateurs expected further increases in menu prices due to soaring food costs. Hotel operators planned to increase room rates with higher occupancy rates. Manufacturers paid higher prices for raw materials, and more manufacturers planned to pass on higher costs to finished goods prices. Builders and construction supply companies noted rising prices for construction materials, especially drywall and asphalt shingles. Transportation companies paid high fuel prices, and some were raising shipping rates.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy continued to grow at a moderate pace, and outlooks were more positive than in the last report. Manufacturers reported increased activity. Demand for business services was solid, and activity in transportation services rose modestly. Housing and commercial real estate markets continued to improve. Overall building activity remained subdued, with the major exception being robust multifamily construction activity. Contacts said retail sales growth was tepid and automobile sales held steady. Financial services respondents said overall loan demand edged up. Energy activity was strong, and agricultural conditions improved. Employment levels were flat to up slightly. Price and wage pressures were modest.

Prices Contacts across most industries said prices held steady. The exceptions were some producers of transportation equipment, fabricated metals and food who noted slight increases in selling prices to partially offset higher input costs. Airlines reported higher fares, and shipping firms noted an increase in express package and freight delivery rates.

The price of WTI was near $100 per barrel during the reporting period. Natural gas prices fell from $3 per thousand cubic feet in early January to near $2.50 in mid-February. Gasoline prices rose by about 22 cents per gallon over the past six weeks, and the price of diesel rose by 7 cents. Prices of petrochemicals and plastics increased since the last report.

Labor Market Employment levels were unchanged at most responding firms but some contacts noted increases. Staffing firms continued to report high levels of demand. Oil services and machinery firms continued hiring at a rapid pace, and slight employment increases came from some auto dealers, airlines, and transportation, food and high-tech manufacturers. Shortages of skilled workers continued to be reported, particularly for the energy industry. Wage pressures remained minimal, although upward pressure for certain positions such as auto mechanics and software engineers was reported. Several firms said annual cost-of-living adjustments took effect at the start of the year.

Manufacturing Overall demand for construction-related materials improved, and several contacts noted that orders were up from year-ago levels. Mild winter weather, robust multifamily construction and booming oil field activity provided a boost to some producers of lumber, stone, clay and glass. Fabricated metals manufacturers noted a pick-up in growth since the last report, in part due to government projects. Producers of primary metals reported a broad-based increase in orders, and one contact said they were adding a new manufacturing plant. Construction-related outlooks were more positive than in the last report, and several contacts expect a slight rebound in activity this year.

High-tech manufacturers said orders edged up moderately since the last report. Demand for semiconductors and other electronic products improved, largely due to a pickup in demand for automobiles, mobile devices and cloud computing. In addition, one respondent noted that retailers of electronic goods had been paring down inventories in the second half of 2011 and that orders picked up as retailers ended the inventory reduction. Most contacts expect a gradual improvement in demand over the next three to six months.

Emergency vehicle, automobile and aviation equipment manufacturers said demand was flat to up since the last report, and expectations are for strong sales growth this year. Food producers noted an uptick in orders from the prior report, largely due to stronger consumer demand. Overall conditions in the paper products sector were mostly unchanged.

Petrochemicals producers reported several large planned and unplanned outages at ethylene and polyethylene production facilities, which led to a sharp increase in prices. Export demand for polyethylene and caustic soda continued to trend up, while domestic PVC demand remained weak due to low levels of housing construction and infrastructure projects. Refiners noted weak demand for petroleum products nationally, although refineries on the Gulf Coast were seeing slightly higher margins than some other parts of the country. Contacts noted Gulf Coast refineries were investing heavily on repairs and maintenance during the current spring turnaround season.

Retail Sales Retailers said overall sales growth was tepid during the reporting period, largely due to unseasonably warm weather. However, sales of non-seasonal items like menswear and home furnishings remained strong. Eleventh District sales trended roughly in-line with the nation over the reporting period, according to three large retailers. Inventories were at desired levels. Contacts noted that the retail environment had improved, and expectations are for moderate sales growth this year.

Automobile sales held steady from the prior report. The used car market remained tight. Vehicle inventories were somewhat lighter than normal. Expectations are for moderate increases in new car sales this year.

Services Demand for business services was solid and outlooks were generally more optimistic than in the last report. Staffing firms continued to report high levels of demand, noting more direct hires than temporary placements. Demand for skilled professionals, particularly IT workers was strong, while orders from the banking sector and demand for clerical staff declined. Legal firms reported steady demand, with an uptick in corporate activity and continued strength in intellectual property, energy and real-estate related services. Accounting firms reported strong seasonal demand for tax related services.

Reports from transportation service firms were positive. Air cargo volumes rose, while container shipments were flat during the reporting period. Railroads 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. Shipping service firms reported an increase in small parcel shipments from the prior report.

Airlines reported passenger demand improved over the past six weeks. Domestic demand and travel to Latin America were solid, while travel to Mexico and the Pacific was weak. Contacts said business travelers remained price sensitive and were purchasing restricted discount fares. Responding firms expect passenger demand to remain stable over the next three months.

Construction and Real Estate Housing demand continued to firm since the last report. Sales of existing homes increased moderately and new home sales were flat to slightly up. Some contacts noted that in January, which is usually a slow month, buyer interest and activity was strong due to favorable weather and record low interest rates. In addition, a fast-declining inventory of homes was reported. Respondents expect the positive trend in sales to continue, and outlooks suggest a modest increase in new home construction in 2012. Apartment leasing activity remained strong since the last report, and responding firms said Texas markets were outperforming the U.S. average. Investor interest in sales and development of multifamily complexes continued to increase. The pace of current multifamily construction was said to be catching up with historical norms.

Nonresidential real estate activity continued to pick up, although construction remained at low levels. Contacts said recent reports on leasing for office and industrial space suggest moderate gains, thanks to demand from the energy and high tech sectors. Investment sales activity continued to improve, in part, due to very attractive interest rates. Contacts were optimistic in their outlooks.

Financial Services Financial firms reported a modest uptick in loan demand. National banks reported strength in middle-market and large corporate lending activity, and several regional banks noted energy-related activity was robust. Outlooks were generally more optimistic than at year-end 2011. Contacts said loan pricing remained moderately aggressive, loan quality continued to improve and problem loans were declining. Respondents noted they were willing to make loans, and borrowers' financial positions were reportedly better than last year.

Energy Energy-related service firms reported very strong demand over the past six weeks, despite a small dip in the rig count due to low natural gas prices. A few gas-directed drilling firms have announced drilling cuts, but respondents expect oil-directed activity to offset the losses. Oil service firms expect strong orders, high investment activity and good overall prospects in 2012.

Agriculture Recent rainfall eased drought conditions in several areas, particularly in the northeastern parts of the District. The rain helped refill stock tanks and benefitted pasture conditions. Farmers were a little more optimistic about spring planting. Demand for agricultural products remained strong. Contacts said cattle prices climbed to record levels, largely due to tight supplies. High commodity prices have helped agricultural producers' margins, but elevated input costs have erased some of those gains.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District continued to grow at a moderate pace during the reporting period of January through mid-February. Price increases for final goods and services were limited, and upward wage pressures were minimal. Sales of retail items rose on balance, and demand improved modestly for business and consumer services. District manufacturing was mixed but appeared to expand overall. Demand grew further for agricultural producers but was uneven for providers of energy resources. Activity in District housing markets remained sluggish, and demand for nonresidential real estate stayed weak overall. Financial institutions reported a small increase in overall loan demand.

Wages and Prices

Upward price pressures remained very limited during the reporting period. While price increases were reported for some commodities, including oil and assorted construction materials such as cement and wallboard, declines were noted for others, such as natural gas. Price increases for most goods and services continued to be restrained by weak final demand and stiff competition among businesses.

Upward wage pressures were quite modest, as high levels of unemployment and limited demand for new workers kept a lid on compensation gains. However, contacts continued to point to notable increases in the costs of employee benefits, particularly in regard to defined benefit pension plans, although they reported slight easing in upward pressures on health benefit costs. Consistent with prior periods, upward wage pressures remained pronounced for workers with specialized skills in the application of information technology in assorted sectors.

Retail Trade and Services

Retail sales continued to expand. Modest improvements in sales were reported for general merchandise such as apparel and smaller household items, with stronger gains noted for traditional department stores than for discount chains. Demand also improved modestly for retailers of major appliances and furniture, but it remained lackluster for electronics. Sales held relatively stable for grocers, although upscale chains saw gains. For retailers of pet products, demand continued to show robust growth.

Demand for business and consumer services rose a bit on net. Sales grew further for providers of technology services to businesses and consumers. Similarly, demand for professional services such as legal services and accounting ticked up on balance. For providers of health-care services, demand was largely stable, with declines in inpatient admissions and surgeries offset by higher emergency room visits. Sales activity was reported to be largely unchanged for restaurants and other food-service providers. Conditions in the District's travel and tourism industry continued to strengthen, reflecting growth in both the business and tourism segments of the market.

Manufacturing

Manufacturing activity in the District was mixed but appeared to expand further during the reporting period of January through mid-February. Manufacturers of semiconductors and other technology products reported moderate sales gains; reports of ongoing investments in information technology equipment by firms in most sectors suggest that demand growth is likely to continue for these manufacturers. For makers of commercial aircraft and parts, strong demand for narrow-body aircraft along with an extensive order backlog kept production rates near capacity. Activity was essentially flat for metal fabricators, and slack demand combined with a diminishing backlog have raised concerns that production activity may decline going forward. Capacity utilization rates for petroleum refiners held largely stable as robust global demand for distillate products, especially from Latin America, continued to offset weak domestic demand for gasoline. Output and sales of wood products remained extremely weak.

Agriculture and Resource-related Industries

Demand continued to improve for agricultural products and mined metals, but it was mixed for natural resources used for energy production. Orders and final sales grew further for most crops and livestock products, with little or no change indicated for the cost and availability of inputs. Mining activity in parts of the District expanded further for a variety of precious metals and metallic elements used for specialized industrial purposes. Strong foreign demand for oil prompted additional increases in extraction activity. By contrast, warm weather held down demand for natural gas relative to seasonal norms, causing further declines in recent and planned extraction activity.

Real Estate and Construction

Home demand in the District persisted at very low levels, and conditions were little changed for commercial real estate. The sales pace for new and existing homes remained quite subdued, although scattered reports suggested modest improvement. Inventories of available homes stayed quite high, putting continued downward pressure on prices and construction activity. By contrast, demand for rental space remained robust, prompting further increases in construction of multifamily units. Conditions in commercial real estate markets were largely unchanged, and vacancy rates for office and industrial space stayed high in most parts of the District. However, additional declines in vacancy rates were noted for selected geographic areas such as the San Francisco Bay Area and Seattle. Contacts also noted recent improvement in financing availability and investor activity for well-leased office buildings.

Financial Institutions

Reports from District banking and business contacts indicated that loan demand improved a bit overall compared with the prior reporting period. The volume of new commercial and industrial loans edged up. The reports suggested that businesses generally remained very cautious in regard to capital spending decisions, but many continued to invest in information technology equipment aimed at enhancing productivity. Moreover, many businesses expect to modestly increase their capital spending in the first half of the year compared with the second half of last year, suggesting that growth in business loan demand may continue. The reports also noted continued stiff competition among lenders to extend credit to well-qualified small and medium-sized businesses, placing further downward pressure on loan rates and fees. Strong recent financial performance by technology companies backed by venture capital reportedly has spurred further investments of late. On the consumer side, the reports suggested little change in loan demand. Contacts reported slight improvement in overall credit availability, although lending standards remained relatively restrictive for many types of business and consumer loans.