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Summary of Commentary on ______________________

Current Economic Conditions

By Federal Reserve District

June 2010

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

June 2010

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SUMMARY*

Economic activity continued to improve since the last report across all twelve Federal Reserve Districts, although many Districts described the pace of growth as "modest." Consumer spending and tourism activity generally increased. Business spending also rose, on net, with employment and capital spending edging up but inventory investment slowing. By sector, nonfinancial services, manufacturing, and transportation continued to gradually improve. Residential real estate activity in many Districts was buoyed by the April deadline for the homebuyer tax credit. Commercial real estate remained weak, although some Districts reported an increase in leasing. Financial activity was little changed on balance, although a few Districts noted a modest increase in lending. Spring planting was generally ahead of the normal pace, while conditions in the natural resource sectors varied across the Districts. Prices of final goods and services were largely stable as higher input costs were not being passed along to customers and wage pressures continued to be minimal.

Consumer Spending and Tourism. Consumer spending improved from the previous report. Spending continued to be concentrated in necessities as opposed to discretionary big-ticket items. Retail sales increased in April and May, although several Districts noted that the gains were uneven across months. Sales of spring and summer apparel were strong in the Boston, New York, Philadelphia, St. Louis, Kansas City, and Dallas Districts. Sales of home improvement and lawn and garden equipment were reported to have strengthened in the Richmond, Chicago, and San Francisco Districts. Modest improvement in sales of discretionary home goods was noted by Cleveland, Kansas City, and San Francisco. Vehicle sales also rose, but the rate of increase reportedly slowed in May in the New York, Cleveland, and San Francisco Districts. Tourism activity improved. Dallas reported a continued increase in leisure air travel. Hotel occupancy rates rose in the New York, Atlanta, Chicago, Kansas City, and San Francisco Districts, and convention activity increased in Atlanta and San Francisco. Richmond reported resort bookings for the Memorial Day holiday weekend were stronger than last year, and Atlanta indicated cruise-line bookings were up slightly. Atlanta also reported, however, that the Gulf oil spill and Tennessee

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floods had already resulted in some vacation lodging cancellations. The potential exists for a much greater impact, although contacts are quite uncertain as to the ultimate effects.

Business Spending. Business spending increased moderately from the previous report. Cleveland, Chicago and Dallas noted that growth in manufacturers' inventories was leveling off, while Boston, Atlanta, and St. Louis reported the same for retailers' inventories. In contrast, several Districts reported that auto production was failing to keep up with demand, pressuring already lean auto dealer stocks. Capital spending was slightly higher in a number of Districts, although several indicated that continuing caution on the part of firms and tight credit availability were limiting expenditures. The manufacturing, transportation, and energy industries accounted for most of the increase in spending on plant and equipment. Boston reported that spending on information technology services increased.

Nonfinancial Services. Nonfinancial service activity was slightly improved, on balance, from the previous report. Several Districts highlighted some strength in demand for professional technical services, such as software and information technology, engineering, and other scientific trades. In contrast, sluggishness remained in accounting, legal, marketing, media, and construction services. Demand for business support services was more mixed. Philadelphia and Chicago reported slightly higher demand while Boston and St. Louis noted that demand remained weak. St. Louis also indicated that budget cuts had led to reduced government and education services.

Manufacturing and Transportation. Manufacturing and transportation activity continued to gradually improve across all twelve Districts. Most Districts reported further increases in factory production, shipments, and new orders, although Philadelphia and Chicago noted that the pace of gains had slowed in May. Steel producers and metals manufacturers reported moderately higher production in Cleveland, Chicago, St. Louis, and Dallas, although Chicago indicated capacity utilization leveled off in May. Auto and parts production increased in the Cleveland, Richmond, and Chicago Districts. Oil refinery capacity utilization was up in the Dallas District. Higher residential construction increased demand for construction equipment and materials in the Philadelphia, Richmond, Chicago, Dallas, and San Francisco Districts. Chicago also noted that demand from Asia and South America for heavy equipment continued to be robust. The output of medical equipment and pharmaceuticals remained strong in Boston and Chicago, as did high-tech manufacturing in Boston, St. Louis, Kansas City, and San Francisco. Food processing increased in Dallas and San Francisco. Trucking and rail activity increased, with freight traffic and raw material shipments on the rise in Cleveland, Atlanta, and Dallas.

Real Estate and Construction. Residential real estate activity improved since the last report. Most Districts noted an increase in home sales and construction prior to the April 30th deadline for the homebuyer tax credit, with contacts in many of these Districts also indicating a corresponding slowing in activity in May. Tight credit, the elevated inventory of homes available for sale, and the "shadow inventory" of foreclosed properties on banks' balance sheets held back residential development in the New York, Cleveland, Atlanta, and Chicago Districts. Commercial real estate activity generally remained weak. Office, industrial, and retail vacancy rates continued to drift upward in many Districts putting downward pressure on rents. However, lower rents were said to have led to an increase in leasing activity in New York, Philadelphia, Richmond, Kansas City, Dallas, and San Francisco. The elevated inventory of existing properties for sale or rent continued to weigh on new private nonresidential construction. However, stronger industrial demand was noted in several Districts. Public construction increased in Philadelphia, Cleveland, and Chicago, but slowed in Minneapolis.

Banking and Finance. Financial activity was little changed on balance from the previous report. Commercial and industrial lending by banks remained weak in most Districts, although Philadelphia, Chicago, Dallas, and San Francisco noted business loan demand was firming. Philadelphia also indicated an increase in business lending by non-depository financial companies, and New York reported that underwriting and investment banking activity strengthened. Consumer lending weakened in most Districts. In contrast, real estate lending increased even though standards on these loans remained tighter than on other loans, particularly for commercial mortgages. Chicago noted that the secondary market for residential mortgages was beginning to improve, and private equity investment in commercial properties increased in Boston, Chicago, and Dallas. Loan quality was indicated to be stabilizing or gradually improving in most Districts, but remained an issue for banks with large exposures to real estate. Contacts in some Districts cited concerns over the potential impact of the European fiscal crisis on financial and business conditions, and reported a corresponding increase in uncertainty and financial market volatility.

Agriculture and Natural Resources. Crop planting was generally ahead of the seasonal norm, particularly in the Chicago, Minneapolis, and Dallas Districts, although soybean planting was lagging in St. Louis and Kansas City. Crop emergence was also ahead of the typical pace. Precipitation conditions were generally positive, with the exception of flooding in Tennessee and dryness in parts of the Richmond and Dallas Districts. Prices for hogs, cattle, and cotton were higher, while prices for grains, soybeans, and milk were roughly unchanged. Mining and energy industry activity varied across Districts. According to contacts in the Atlanta District, the Gulf oil spill had little immediate effect on oil production, although it had damaged fishing operations.

Employment, Wages, and Prices. Labor market conditions improved slightly with permanent employment levels edging up in most Districts. In addition, many Districts again noted an increase in temporary hires, with Boston and Dallas also indicating a pick up in temporary-to-permanent transitions. By industry, manufacturing was the most often cited source of employment gains (both temporary and permanent), and Cleveland, Minneapolis, and Dallas noted an increase in the manufacturing workweek. Other sources of increased employment were the biopharmaceutical industry in Boston, retail trade in Chicago, and transportation in Dallas.

Wage pressures were limited, although San Francisco noted upward pressure on employee benefit costs. Prices of final goods and services were largely unchanged in most Districts as higher input costs were not being passed along to customers and wage pressures continued to be minimal. Steel prices in many Districts moved higher, as did lumber and food prices, while energy prices generally declined. Several Districts noted tighter commodity supply conditions, with Richmond and Kansas City indicating an increase in supplier lead times and Boston and Atlanta reporting supply chain capacity constraints. Transportation costs moved up in the Philadelphia, Richmond, Atlanta, and San Francisco Districts, but diesel fuel cost pressures eased in New York.

FIRST DISTRICT – BOSTON

Business contacts in the First District report stable to increasing activity in recent months compared with a year earlier, with most citing increases. Retail contacts note some potholes in the recovery path, but generally positive sales results; most responding manufacturers, staffing firms, and software and information technology services providers are also seeing recent or continued revenue growth. Home sales and prices are advancing, although contacts attribute most of the increases to homebuyers' tax credits; commercial real estate markets are also improving. Some firms are hiring beyond replacement and/or re-instituting merit-based pay increases. Firms' selling prices are generally stable. Notwithstanding positive trends, the outlook remains cautious.

Retail

Contacted retailers in the First District report flat to positive sales results for the months of March, April and early May; year-over-year same-store sales increases range from zero to about 10 percent. A few contacts characterize sales as "volatile," and even those retailers reporting increases note some periods of slowing sales. All respondents mention weak sales for big-ticket items, but say that sales of core consumables, household items, or clothing are strong. Most contacts are cautiously optimistic regarding the next few months, but express concern about sales later in the year.

Inventory levels are primarily on target, although a few contacts indicate they are a little higher than expected because of soft sales. Capital spending is mixed, with some retailers spending on new store openings, remodels, and IT systems, and others remaining cautious on spending. Headcounts are stable. Vendor and selling prices are said to be constant, although one contact notes an increase in food-related commodity prices.

Manufacturing and Related Services

Most contacted manufacturing firms suggest that a relatively strong first-quarter rebound in demand is continuing into the current quarter. Results are particularly good at relatively non-cyclical biopharmaceutical firms as well as highly cyclical firms such as semi-conductor manufacturers. Growth in demand at these firms was primarily in the double digits, with a few semi-conductor equipment suppliers reporting Q1 quarterly growth in the high double digits. These manufacturers had particularly bad years in 2009, but see continued strong demand through the current quarter and year. By contrast, revenues remain weak at business services firms as well as for a recreational equipment maker. These companies describe their sales environment as soft, with one noting that demand stagnated in the first quarter rather than picking up as anticipated. Nonetheless, each of these firms has seen at least small pockets of improving activity.

Input costs remain relatively stable at most of the firms contacted, although costs have edged up a bit at firms whose production processes are highly energy intensive. In addition, a plastics manufacturer notes that some of its inputs are in short supply because suppliers ratcheted back capacity during the downturn and are reluctant to bring it back online. Selling prices are generally unchanged, as the marketplace remains highly competitive. However, one firm recently removed discounts it instituted in 2009, and a couple of others reported being able to implement modest planned price increases.

Employment is mostly stable among contacted manufacturers, although headcounts remain well below their 2008 levels at a number of firms. A few firms have hired a small number of workers so far this year and they plan to increase headcount slightly as the year progresses. The strongest potential employment gains are in the biopharmaceutical industry where one firm plans to increase its headcount during 2010 by about 10 percent. Responding firms that froze salaries last year have generally reinstated merit-based increases or plan to do so by the middle of the year. Most manufacturers continue to report that their planned capital expenditures for 2010 are in line or slightly greater than their expenditures in 2009. Much of the planned capital spending for this year is for infrastructure-related improvements.

Overall, manufacturers again indicate that they are cautiously optimistic about the outlook for their business and the economy for the remainder of 2010. Some express concern about the potential impact of the current situation in Europe on consumer demand, although most say their exposure to European markets is relatively limited. Some biopharmaceutical companies expect health care reform to hurt their bottom lines; one company says the result will be less money for research and development.

Software and Information Technology Services

Software and information technology contacts in the First District report improved business conditions, with demand up significantly relative to a year ago. Increased activity is leading firms that previously reduced headcount to hire selectively, and merit increases have been reinstated. Respondents note that many large corporate customers are raising their technology spending budgets, but some small and mid-size businesses may still not possess the credit capacity to do so. While some discounting pressure still exists, contacts report they have been able to maintain prices. For those software and IT firms with substantial shares of their business located internationally, the European debt crisis is a major concern and the strengthening dollar continues to negatively affect revenues. Despite these concerns, respondents expect continued growth through the remainder of the year.

Staffing Services

New England staffing respondents report that the upward trends of the second half of 2009 and the beginning months of 2010 have continued; however, a few contacts lament that overall activity still remains below expectations. Revenues have risen year-over-year, ranging from “slightly better” to up nearly 50 percent. The number of conversions from temporary to permanent staff is rising and direct-hire placements are beginning to pick up. Labor demand from the pharmaceutical, biomedical, aerospace, and semi-conductor industries is steady. There is renewed activity in the legal sector, with increased labor demand for paralegals, business support personnel, and attorneys. On the other hand, the construction, architecture, civil engineering, marketing, and accounting sectors remain slow.

In terms of labor supply, the skills of job seekers often do not align with the needs of employers; one contact notes that hundreds of college graduates are looking for work but available positions often require more experience. Other contacts indicate that highly skilled candidates are receiving multiple offers; clients, in turn, are showing more willingness to pay higher rates. In addition, turnover has recently increased, as those with jobs seem somewhat less reticent to give them up. Looking forward, First District staffing contacts largely express increased optimism and predict gradual improvement through 2010.

Commercial Real Estate

According to contacts around New England, commercial leasing activity is at least flat, and in some cases noticeably improved, compared to the last report. A Rhode Island contact notes a significant increase in leasing activity in recent weeks, driven by a backlog of postponed renewals. He characterizes tenants as wanting to make deals while they still have significant bargaining power; furthermore, he hears word that some firms are beginning to consider new hiring and expansion of operations. A Hartford contact describes leasing activity as flat in his metropolitan area and says this is consistent with local fundamentals, such as limited hiring activity and persistent retail vacancies downtown; nonetheless, he notes modest improvements in sentiment among both business professionals and consumers. Boston contacts report an uptick in lease deal volume; one was pleased to see a recent lease deal that will absorb a large portion of space in the Hancock tower, but otherwise had little good news to report. Across the region, rental rates and vacancy were largely unchanged in recent weeks. With the exception of industrial properties in Rhode Island, commercial property sales activity was slow across markets in the region.

Contacts in Providence and Boston note that debt default rates for commercial properties remain significant, and defaults are perceived to be on the rise in Boston's suburban corridors. The good news, however, is that properties and/or debt are changing hands as new equity is increasingly willing to invest in commercial real estate. A commercial real estate lender in Boston confirmed the influx of equity cash as a welcome development after at least 18 months of investor skittishness. The same lender is seeing many worthy lending opportunities in greater Boston and reports facing increasingly stiff competition from other regional lenders to lower rates and relax loan terms.

The outlook is mixed among respondents around the region. The Providence contact is more optimistic about both hiring and leasing over the next six to 12 months than a Boston contact, who maintains his prediction that rents have further to fall. In Hartford, the outlook is largely unchanged, and a Boston banking contact remains "guardedly optimistic." However, nearly all contacts point to the recent troubles in Europe as a new source of uncertainty on the horizon.

Residential Real Estate

Residential real estate markets in New England experienced large gains in April compared to a year earlier; contacts attribute much of the improvement to the impending expiration of the homebuyer tax credits. Home sales increased sharply year-over-year across the region, ranging from a 26 percent increase in Rhode Island to a 63 percent increase in Maine. Condo sales increased between 39 percent and 64 percent in April compared to a year ago. The median price of homes also showed modest improvement in all markets. The median price of condos in the region also increased modestly year-over-year in April, except in Rhode Island, where it fell 15 percent.

April 30 was the deadline to sign a contract on a home in order to be eligible for the homebuyer tax credits; because June 30 is the associated deadline to close on the home and contract-signings continued through April, contacts expect sales numbers to remain strong in May and June. There is no consensus among respondents about how markets will perform after June, although some cite anecdotal evidence of continued activity after April 30 and most think that low interest rates and fairly low prices will continue to make the market attractive for prospective buyers.

SECOND DISTRICT--NEW YORK

The Second District's economy has strengthened further since the last report, with scattered signs of improvement in the job market; manufacturers and other firms continue to face upward cost pressures, but prices at the consumer level remain relatively stable. Manufacturing-sector contacts continue to report improvement in business activity and increasingly widespread plans to increase capital spending. Auto dealers report strong sales for April but mixed results for May. Similarly, non-auto retailers generally report that sales were robust and ahead of plan since the last report, though one large chain reports that sales slowed in May. Tourism activity in New York City has strengthened further since the last report. Commercial real estate markets have generally been steady since the last report. Residential real estate markets have been steady to somewhat firmer since the last report, especially at the lower end of the market. Finally, bankers report weaker demand for consumer loans but little change in other categories; they also note some tightening in credit standards but little change in credit spreads or delinquency rates.

Consumer Spending

Retailers report strong sales for April but mixed results for May. Contacts at two major malls in western New York State report that sales and traffic were generally brisk in April and May, though inclement weather in early May led to a slow start to the month. One mall indicates that Canadian shoppers continue to represent a large share of customers. A major retail chain reports that business was ahead of plan in April, with same-store up more than 5 percent; however, sales reportedly weakened in the first three weeks of May and were somewhat below plan, with New York City continuing to out-perform other areas. In general, contacts report that sales of clothing, cosmetics and jewelry were relatively strong. However, sales of goods for the home were more mixed, with one contact noting a recent drop-off in sales of large appliances, which is partly attributed to the end of government rebate programs. Separately, the Conference Board reports that consumer confidence among residents of the Middle Atlantic states (NY, NJ, Pa) surged to a two-year high in April but retreated modestly in May.

Vehicle sales have reportedly slowed a bit in recent weeks. Rochester-areas auto dealers report that sales were relatively strong in April, rising by as much as 25 percent from a year ago (though spring 2009 makes a particularly low base for comparison); however, results for May have been more mixed, with some softening in demand for domestic makes. Dealers in the Buffalo area report that sales remained strong in April, rising nearly 10 percent from a year earlier, but that they cooled in May and were modestly lower than in May 2009. Auto dealers in both areas report recent improvement in both retail and wholesale credit conditions.

Tourism activity in New York City has shown further signs of strengthening in April and May. Manhattan hotels report a marked pickup in revenue in April and the first three weeks of May, reflecting both higher room rates and increased occupancy. Total revenues rose by more than the seasonal norm from the first quarter and were up roughly 10 percent from a year earlier. Similarly, Broadway theaters report that business has picked up noticeably in recent weeks, after slowing a bit in mid-April. Revenues for the first half of May were running 16 percent ahead of a year ago, partly reflecting increased attendance, but primarily due to higher ticket prices.

Construction and Real Estate

Housing markets have been steady to somewhat firmer since the last report, with the gains largely attributed to the soon-to-expire home-buyer tax credit spurring demand at the lower end. Realtors across New York State report that sales activity was roughly 20 percent higher in April than a year earlier and prices were up about 8 percent on average. Similarly, Buffalo-area Realtors report that home sales were brisk in April, and that prices were up more than 10 percent from a year earlier, though conditions are reported to have cooled off dramatically in May, due to the end of the tax credit. An authority on New Jersey's housing industry also reports a moderate pickup in sales activity this quarter, particularly at the lower end of the market—again, largely attributed to the home-buyer tax credit. In other segments of northern New Jersey's market, prices are essentially flat, and price trends are not as robust as builders and developers had expected, as a large "shadow inventory" of existing homes is said to be weighing down the market. There is concern that conditions will weaken again in the third quarter, without the support of the home-buyer tax credit. Housing affordability remains a major issue.

Activity in Manhattan's co-op and condo market has leveled off, following a modest pickup in the first quarter. The pace of new contract signings has retreated a bit in recent weeks, while prices have held steady at about 20-30 percent below their peak. There remains a large supply of units on the markets, though one contact notes that the inventory of competitively priced units is fairly lean. While the home-buyer tax credit has had little impact on Manhattan's high-priced market, it has reportedly had a positive effect elsewhere in New York City, where prices are considerably more moderate. Manhattan's apartment rental market has strengthened since the last report. Rents have recovered modestly, and landlords are offering less generous concessions than last year or even a few months ago. The inventory of available rental units has stabilized.

Commercial real estate markets in and around New York City have been relatively steady since the last report. Leasing activity, which was very depressed throughout most of 2009, has picked up noticeably since the beginning of this year and is now back up to "normal" levels. Much of the recent pickup has come from legal firms and, to a lesser extent, from business services, media, and government agencies; in contrast, there has been a dearth of new leasing by financial firms. Still, vacancy rates continue to edge up, as businesses tend to be taking less space than they had at prior locations. Asking rents continue to drift down but appear to be bottoming; net effective rents have been stable since last summer, as landlords have gradually scaled back on concessions.

Other Business Activity

Manufacturing firms in the District remain upbeat, noting ongoing gains in employment, new orders, shipments and general business activity; a growing proportion of respondents plans to increase capital spending in the months ahead. Contacts outside the manufacturing sector continue to describe both business conditions and employment levels as stable or rising modestly. Both manufacturers and other firms report continued widespread rises in prices paid but only modest increases in selling prices.

A contact in the trucking industry reports that business has continued to improve moderately since the last report and that truckers are seeing some relief from lower diesel prices. There are scattered but increasing reports of driver turnover—drivers leaving for more lucrative jobs. A securities-industry contact notes that business conditions have been good, with both underwriting and investment banking activity strengthening, and contends that major layoffs are now behind us; however, firms are reportedly putting off hiring and investment, due to uncertainty about regulatory reform as well as concern about global financial conditions, particularly in Europe. Recent hiring by financial firms has largely been in the area of compliance.

Financial Developments

Contacts at small to medium-sized banks in the District report mixed trends in loan demand: respondents indicated decreased demand for consumer loans, increased demand for commercial mortgages, and no change for residential mortgages and commercial and industrial loans. Bankers also note increased demand for refinancing, for the first time in almost a year. Respondents indicate tightening credit standards for commercial mortgage and commercial and industrial loans but no change in standards for other types of loans. No banker reported easing credit standards for any type of loan. Bankers report an increase in spreads of loan rates over costs of funds for consumer loans and commercial and industrial loans. Spreads on residential and commercial mortgages were steady. Finally, respondents report little or no change in delinquency rates for any category.

THIRD DISTRICT – PHILADELPHIA

Economic activity has advanced modestly in the Third District since the last Beige Book. Manufacturers, on balance, reported increases in shipments and new orders. Retailers posted sales increases from April to May. Motor vehicle dealers also indicated that sales increased. Third District banks reported mostly steady loan volume outstanding. Residential real estate agents and homebuilders said home sales increased from March to April but slowed in May. Contacts in the commercial real estate sector said leasing has picked up, but vacancy rates have not improved, and construction activity continued to be weak. Service-sector companies generally reported slight gains in activity. Business firms in the region indicated that prices of most goods and services have been steady, although there were increased reports of rising prices for basic materials, construction-related products, and shipping.

The outlook among Third District business contacts is positive but cautious, overall. Manufacturers forecast a rise in shipments and orders during the next six months, on balance. Retailers expect sales to expand modestly as long as overall economic conditions and the employment situation improve. Auto dealers expect the sales rate to increase somewhat in the months ahead. Bankers expect a slight increase in lending, mostly in commercial and industrial loans. Residential real estate contacts expect the pace of home sales to ease following the end of the federal tax credit for purchases. Contacts in nonresidential real estate expect leasing to increase slowly, but they do not expect any near-term gains in construction activity. Service-sector companies expect continued modest growth for the rest of the year.

Manufacturing

Third District manufacturers reported increases in shipments and new orders in May, on balance. Compared with April, however, the number of firms recording rising orders declined somewhat, although the number of firms recording rising shipments increased. Among the major manufacturing industries in the region, increases in orders were more common for producers of lumber and wood products, industrial materials, and industrial equipment. In contrast, producers of apparel and electrical equipment reported mostly declines in orders. In general, manufacturers continued to describe the increase in demand for their products as slow. One manufacturer said, "Conditions have improved slightly," and another said, "Activity is showing signs of improving but at a slow pace."

Third District manufacturers expect business conditions to improve during the next six months, on balance, and the margin of positive opinions over negative opinions has been practically unchanged since the previous Beige Book. Among the firms surveyed in May, about half expect increases in new orders and shipments; a bit over one-tenth expect decreases. Capital spending plans among area manufacturers remain positive, on balance, but not strong. About one-fourth of the firms polled in May plan to increase expenditures for new plant and equipment, but one-half plan to maintain level spending, and nearly one-fifth expect to reduce spending.

Retail

Third District retailers reported increased sales in May compared with April and with May of last year. They said that spring apparel sales continued to rise and that sales of other lines of merchandise had begun to move up as well. Although some merchants cautioned that much of the year-over-year improvement in sales was a consequence of last year's poor results, most said the current trend in sales was encouraging. "It's definitely a better year than last," one retailer remarked, "and we are selectively expanding." Looking ahead, Third District retailers expect the sales trend to remain positive as long as overall economic conditions continue to improve.

Third District auto dealers reported a rise in sales in May compared with April and with May of last year. They said a shortage of popular models has limited the advance in sales, but they expect manufacturers to increase production soon. Dealers expect sales to continue to move up through the rest of the year.

Finance

Total outstanding loan volume at most of the Third District banks contacted for this report has been virtually level since the last Beige Book. On balance, commercial bank lending officers said there has been a small increase in business lending, some gains in residential mortgage lending, but a decline in consumer lending. Bankers generally reported that demand for business loans has been rising, although some noted that use of existing credit lines by many commercial customers has been less than expected. Contacts in the Third District financial community noted recent signs of increased interest in business lending by non-depository financial companies. Most of the surveyed banks indicated that credit quality measures have shown little change since the last Beige Book, although some noted slight improvement.

Looking ahead, Third District bankers expect modest loan growth. They generally expect gains in business lending. In contrast, several bankers said they expect a falloff in demand for residential mortgages and continued softness in consumer loan demand. “Individuals are still deleveraging and looking to build up cash reserves,” one banker said.

Real Estate and Construction

Contacts in residential real estate markets reported increases in sales of new and existing homes from March to April as well as year-over-year gains for both months, but the sales pace slowed in May. The March-April results were fueled by the federal income tax credit for home purchases, according to contacts, and they expect the monthly sales rate to taper off. They expect some sales momentum for existing homes as recent homebuyers sell their current residences, but slower sales after that. Many contacts believe “we stole sales from the future,” as one real estate agent said. Although builders reduced inventories of built homes in the past few months, they do not expect construction activity to pick up this summer. For both new and existing homes, contacts reported little change in prices compared with a year ago.

Nonresidential real estate firms indicated that vacancy rates in commercial and industrial buildings have increased slightly in most parts of the Third District in the past few months. Leasing activity has picked up somewhat, but effective rents have been steady to down as recently completed buildings have added to the supply of available space. Construction activity has been generally flat at low levels, according to contacts, although some reported increases in road building and publicly funded projects. Contacts expect leasing activity to increase slowly in the months ahead and rents to remain about steady. “It will not be a robust recovery,” according to one contact whose opinion reflected the consensus. Building contractors and commercial real estate agents were in agreement that construction activity showed no signs of increasing in the near term.

Services

Service-sector firms generally reported that activity has expanded slightly since the last Beige Book. Business services firms indicated that client companies in most industry segments have increased use of their services, with the exception of the construction industry, a sector in which a recovery has not yet occurred. Several business services firms reported increased interest in outsourced functions by companies in a range of industries as well as by state and local governments. Nearly all the services firms contacted for this report noted that the recent improvement has been slight. One contact said, “The growth is modest, and the year-over-year comparison is easy because business was very slow last year.” Looking ahead, most of the services firms contacted for this report expect continued modest growth for the rest of the year.

Prices and Wages

Reports on input costs and output prices have been mixed since the last Beige Book, although there has been an increase in the number of reports of rising prices. Around 40 percent of the manufacturing firms polled in May noted increases in the costs of the commodities they use, and 50 percent reported steady input costs. Manufacturers continued to report rising costs for metals and metal products, and they also reported increased costs for lumber and chemicals. Most manufacturers said they have not raised the prices of the products they make, although some producers of lumber and wood products, metals, and electrical equipment have raised prices. Construction firms noted increases in the costs of lumber, drywall, oil-based products, and some metal products. Retailers reported mostly flat selling prices. However, they noted increases in the cost of cotton goods and international freight rates. Auto dealers said vehicle selling prices have moved up, particularly for used cars.

Business firms in the region reported a slight increase in hiring, on balance, but no significant changes in wages since the last Beige Book. Several firms noted that recent increases in business activity have prompted them to consider increasing staffing levels sometime this year. Employment agencies reported strengthening demand for temporary workers and a slight increase in demand for permanent employees.

FOURTH DISTRICT – CLEVELAND

The economy in the Fourth District showed further signs of strengthening during the past eight weeks. Manufacturers reported that the rise in production which began late last year continued, although orders remain below pre-recession levels. Contacts in non-residential construction noted some signs of renewed growth, while residential builders cited only a modest uptick in activity. Sales figures from auto dealers showed a moderate improvement, whereas District retailers saw their rate of sales growth slow. Energy production was mixed, and reports indicate a better-than-expected rise in freight transport volume. Demand by businesses and consumers for new loans remains weak, while some bankers commented that the lending environment is starting to grow more competitive.

There was a broad-based pickup in employment in the manufacturing sector, where businesses are recalling workers and increasing production hours. Staffing-firm representatives had mixed reports on the number of new job openings, with opportunities concentrated in the healthcare field. Wage pressures continue to be contained. Apart from rising prices for steel and lumber, raw materials and product pricing was generally stable.

Manufacturing. Reports from District factories generally show that production levels continued to increase during the past eight weeks and on a year-over-year basis, though by varying amounts. Some respondents attributed recent increases to seasonal factors. Most manufacturers are confident about near-term prospects and expect their sales to remain on a moderate upward trend. However, they do not expect a strong rebound to pre-recession levels this year, and a few anticipate a leveling off in new orders. Steel shipments remain on the upswing, with half of our contacts characterizing volume as better than expected. Rising volume is being driven by autos, energy, and construction equipment. Although some underlying uncertainty remains, there is a sense that the current level of business activity is sustainable, at least through the third quarter. District auto production was stable in April on a month-over-month basis, while year-over-year it rose substantially for both domestic and foreign nameplates.

A large majority of our contacts told us that their inventories are now well balanced, reflecting increased demand. Capacity utilization rates continue to improve, with a few reports indicating that it is now moving toward historical norms. Capital outlays remain at relatively low levels, and business owners are approaching spending decisions with caution. However, the number of respondents who plan on additional spending during the second half of 2010 has increased substantially since our last report. Several steel producers and service center representatives reported that they are beginning to see signs of a leveling off in steel prices. Nonetheless, a few manufacturers are contemplating, or have already put in place, higher product prices that reflect the rise in the cost of steel. Even though new hiring is limited, we heard numerous reports of recalling laid-off workers and increasing work hours. Wage pressures are contained.

Real Estate. In general, new home sales improved slightly during the past eight weeks and on a year-over-year basis. Our contacts tell us that the move-up and third-time home-buyer categories are gaining momentum, while activity by entry-level buyers is lessening. Homebuilders are not expecting a turnaround in the housing market this year, and they are concerned about the effect of foreclosures and real estate owned properties on housing inventories. Builders also reported that their current spec inventory is in line with market demand. Little change was noted in the list prices of new homes, and reports indicate an overall rise in construction material costs, especially for lumber. Skeleton crews remain the norm for general contractors and subcontractors.

Activity in non-residential construction continues to show signs of a pickup. Inquiries have improved, and many contractors said that their backlogs are higher than year-ago levels. Most projects currently under-way fall within the industrial and government-funded infrastructure categories. The glut in retail space shows no signs of diminishing. Almost all of our contacts are fairly optimistic in their outlook for the remainder of the year. Increased costs for construction materials were limited to steel and lumber. General contractors reported a small amount of seasonal and permanent hiring. While opportunities for subcontractors are beginning to improve, many of them are still struggling and taking on projects at cost.

Consumer Spending. In general, retail sales were stable or down slightly during April on a month-over-month basis and showed some improvement from year-ago levels. Although consumers continue to focus on buying necessities, retailers noted that they see a pickup in purchases of discretionary items, especially for those used in the home. Looking forward, retailers are cautiously optimistic, and most expect sales to show a slight improvement going into the third quarter. Vendor and store pricing has been relatively stable. Auto dealers saw new vehicle sales increase from mid-April through mid-May, when compared with the previous 30-day period, and on a year-over-year basis. Reported increases varied widely. Used vehicle purchases were characterized as doing well. Overall, dealers are cautiously optimistic and expect slow, steady sales growth through the summer months. Reports on vehicle inventories were mixed. Half of our contacts said they need more cars on their lots, while others noted that inventories are in line with sales. Contacts also said that buyers are finding it easier to obtain financing from banks, credit unions, and captive financing companies. Reports show little change in staffing levels at retailers or auto dealers.

Banking. The market for business lending remains soft, with most bankers reporting that demand for new loans is steady to down slightly. Interest rates were stable, although a few of our respondents noted that competition is putting downward pressure on their rates. On the consumer side, most bankers characterized loan demand as weak or flat. Those seeing a slight increase attributed it to draw downs on home equity lines of credit. The residential mortgage market continues at a slow pace, with several bankers noting that activity has diminished further since the end of the home-buyer tax credit. Core deposits continued to grow at most banks, while deposit rates remain low or fell further. Reports on the credit quality of loan applicants were mixed. Delinquencies were improving almost across the board, with the only problem areas continuing to be those related to real estate. Bankers expect that current credit standards will persist for the foreseeable future. Overall employment levels are stable, although two large banks reported some workforce growth.

Energy. Reports show little change in oil and natural gas production during the past eight weeks, with only a modest increase expected going into the summer. Spot prices for oil and gas are trending down. We heard mixed reports on coal output. One producer attributed very strong demand for metallurgical coal to the global upswing in steel production, while long-term expectations by electric utilities for flat demand and excess capacity is putting downward pressure on coal output. Prices for coal were mixed. In general, capital expenditures by energy producers are flat to down. However, two of our contacts said that they expect to increase capital outlays during the second half of 2010. With the exception of steel pipe, production equipment and materials costs were flat. Employment was steady, and little hiring is expected in the near future. Wage pressures are contained.

Transportation. Freight transport executives reported favorable volume trends, with corresponding gains in their bottom lines. However, profits remain below historical norms. Several contacts noted that the increased volume was above expectations. Most freight executives characterized their outlook as optimistic. Nonetheless, there remains some underlying concern about the sustainability of the recovery and credit availability for working capital. Several of our contacts noted that they are attempting to negotiate moderate rate increases, with some degree of success. They also reported a significant rise in the cost of packaging materials and much higher quotes for tractors and trailers to be delivered in the summer, which they attributed to new engine regulations. Major capital purchases remain at low levels. However, due to aging fleets and growing demand, the need to replace equipment may grow toward year-end. Current hiring is for replacement only. If volume continues to build, freight executives expect to add capacity in the near term.

FIFTH DISTRICT–RICHMOND

Overview. Economic activity in the Fifth District continued to post moderate gains across most sectors from weak levels. Manufacturing continued to be a bright spot, with contacts indicating slow-but-steady expansion across a broad range of industries. Banks and other services-providing firms, also cited improvements over the last six to eight weeks, with scattered reports of weaker activity. For example, several professional services firms reported rising revenues, but an executive at a large healthcare organization stated that demand was weaker than expected. The real estate market sent mostly positive signals. In a striking change from recent months, several contacts noted a pickup in the high end of the market. Retail sales activity was virtually unchanged in recent weeks, but auto sales improved. While several temp agencies reported improving demand, other labor market indicators were weak. Slight increases in commodity and component prices were noted by manufacturing and services firms.

Retail. Retail sales generally flattened in recent weeks, but there were a few reports of improvement. Department stores overall reported no change in sales, and retailers in areas with high unemployment indicated that their sales continued to be held down by jobless customers scrimping on purchases. However, a retail representative in central Virginia noted an uptick and said that people were now spending on a wider variety of goods compared to a year ago when customers were "just buying the bare essentials." In addition, grocery, home improvement, and garden supply retailers reported accelerating sales. Auto dealers in West Virginia and South Carolina also reported a pick-up in sales and said that manufacturers have not been able to gear up fast enough to keep up with dealers' orders for domestic and foreign nameplates. Other big-ticket sales remained in a slump, however. Retail prices rose slightly faster since our last report.

Services. Revenues at services-providing firms rose more quickly than last month, although a few contacts continued to report weakness. Transportation services firms reported stronger business, and enplanements rose at District airports. Executives at trucking firms noted stronger revenues, in part from the ability to raise prices in some markets. In addition, contacts at professional, scientific, and technical services firms reported rapidly rising revenues, and call centers in North Carolina cited expanded hiring. In contrast, an executive at a large healthcare organization noted that customer demand for services was "a little soft" relative to plan because the flu season was not as severe as expected. Services firms related to building construction also continued to report a down market. Aside from trucking, price changes at services firms were essentially neutral over the last month, with most contacts reporting no change in recent weeks.

Manufacturing. District manufacturing activity continued to expand. Overall, manufacturers reported that shipments edged higher and new orders advanced at a solid pace, while employment grew at a slower pace. An auto parts supplier noted that orders continued to increase more quickly than expected, which resulted in rush orders for foreign and domestic materials. Similarly, another manufacturer of automotive components indicated that his company was still experiencing significant unforeseen demand from the auto sector. He also noted that his non-auto related business was finally starting to recover as well. Moreover, a number of lumber companies reported their orders had increased because their customers were rebuilding inventories. Accordingly, the increased demand resulted in a small profit for their firms for the first time since early 2007. A manufacturer of door components reported that revenues were 10-15 percent above the lows of 2009. Contacts also stated that raw material lead times had increased. Prices of raw materials increased at a slightly quicker pace than a month ago, while finished goods prices grew at a somewhat slower pace than earlier.

Finance. Banking activity in the District remained generally weak since our last assessment. However, several respondents stated that their lending activity over the last few months was up moderately in at least some segments of their markets. Consumer lending was described by one banker as up from earlier in the year and another banker cited increased use of credit cards. Industrial loans were little changed in recent months, as businesses kept a tight control on inventory and were cautious about investing in new equipment. Several mortgage bankers stated that applications dipped after the homebuyer tax credit expired at the end of April, but one banker noted that activity recovered in the second half of May. While some bankers saw no improvement in higher-priced home sales, several lenders reported significant improvements in that segment from extremely low levels. Credit quality was little changed, although one banker reported increases in 30-day delinquencies. Other bankers stated that, on balance, quality was improving because bad loans were being taken off their books.

Real Estate. Residential real estate markets across the District continued to strengthen. While most of the gains were in the low-to-mid price range, activity inched up for higher priced homes in several areas. Properties in the mid-to-upper price range sold very quickly in the D.C., area, with the best sellers in the $800k-$1.1M range. The inventory of unsold homes there was at its lowest level in eighteen months. Several agents reported getting multiple offers on properties. Concern that interest rates would rise once the homebuyer tax credit expired had pushed some people to purchase homes. House prices held steady across much of the District, but they increased somewhat over the last 30 days in Fredericksburg, Va., where a shortage of inventory and multiple contracts were noted.

Commercial real estate agents reported modest improvements since our last report.

For example, vacancy rates for office space in Columbia, S.C., and Charlotte, N.C., markets decreased due to positive absorption, but were stable in Richmond. Leasing activity eased in Charlotte and demand was unchanged at a weak level. A slight pick-up in retail leasing was reported in Richmond. Rental rates remained stable in most sectors. New construction remained generally nonexistent. However, a construction contractor reported starting a 100-percent speculative office building in a suburban area and indicated he would like to start a second one in the near future. He felt confident that the new buildings would attract tenants shying away from more urban locations.

Tourism. Tourist activity along the coast was either unchanged or up slightly from a year ago, and mountain resorts reported generally improving conditions. Contacts on the Outer Banks of North Carolina and in Virginia Beach said that bookings over the Memorial Day weekend were somewhat stronger when compared to earlier expectations. One contact from the Outer Banks noted that attitudes were definitely improving. Tourists were starting to eat out more and attending ticketed events again. While an analyst in Myrtle Beach indicated that increased promotion was attracting more visitors, spending levels continued to be quite low. Managers at mountain resorts reported that holiday bookings were somewhat stronger than last year. They attributed the increase in reservations to people staying closer to home, which allowed tourists to spend more at restaurants and events.

Labor Markets. Fifth District labor markets remained soft, but temporary employment agents cited recent gains. While several services firms reported that hiring was picking up, job cuts continued at many retail establishments. No change in the number of employees was noted in most manufacturing industries, but several contacts reported cuts in weekly production hours. A Raleigh contact at a temp agency reported seeing a steady increase in demand for his clients, specifically in office support positions where demand had been lagging in previous periods. One respondent stated that temp employment among District auto- and metals-related manufacturers improved recently. Most temp agency contacts expected the demand for workers to continue to improve, citing a recovering economy and higher manufacturing orders. Wage growth picked up in retail and services businesses, but one executive said that manufacturing wages had not increased since 2007 and he did not expect them to change this year.

Agriculture. Rainfall brought much needed relief and improved soil moisture to most areas of the District, which helped revive pastures and field crops. However, dry conditions and inconsistent weather took a toll on crops and yield potential in other areas. For example, farmers expected low rainfall to reduce winter wheat harvests in South Carolina. An analyst in Virginia reported some fruit and vegetable damage due to near frost-level temperatures. Also farmers expected lower yields of hay because sporadic rainfall hampered production and curing. In Maryland, however, hay supplies remained adequate and pasture conditions were rated fair to good. In North and South Carolina, plantings of peanuts and soybeans were well on their way, and farmers in Virginia were busy planting sweet corn, cantaloupes, peppers and squash. The 2010 peach harvest has just begun in South Carolina and conditions are favorable for peach growers. Lastly, peach and apple conditions in West Virginia ranged from fair to excellent, with most orchards in good condition.

SIXTH DISTRICT – ATLANTA

Summary. On balance, Sixth District business conditions appear to have improved modestly in April and May. Most retail contacts continued to experience increased traffic and sales, and their outlook remained generally optimistic. Reports on tourism were also generally positive; however, considerable uncertainty was expressed about the potential impact from the Gulf oil spill and the recent floods in Tennessee. Overall, homebuilder and Realtor reports suggested that the pace of new and existing home sales slowed somewhat, whereas commercial construction contacts reported ongoing weak conditions. The District's manufacturing and transportation segments extended their previous gains in new orders and production. By most accounts, bank credit conditions remained tight. Firms across several sectors reported increasing hours worked of existing staff and expanded the utilization of temporary hires. However, firms generally remained reluctant to add permanent staff. According to manufacturers and homebuilders, transportation and material costs rose slightly, but they did not plan to pass these increases along to customers.

Consumer Spending and Tourism. Most retail merchants reported continued improvement in traffic and sales, and a slight increase in confidence among consumers in April and May. Despite the uptick in sales, retailers continued to keep their inventory levels relatively low, preferring instead to have more inventories held at the wholesale level. The outlook among retail contacts was positive with the majority expecting continued sales growth over the next couple of months. Vehicle sales increased from weak year-ago levels, with foreign brands experiencing the strongest demand.

The tourism sector continued to improve. Hospitality contacts in Atlanta, Miami, Nashville, New Orleans, Orlando, and Tampa all noted hotel occupancy rates above the national average. Business-related travel and convention bookings were up and future bookings looked strong. Convention hotel contacts began noting some pricing power. Cruise-line bookings were gradually trending up and many were able to increase prices slightly. Similarly, contacts in the restaurant industry experienced a modest increase in activity and projections for the near-term were optimistic.

However, the recent Gulf oil spill and the floods in Tennessee have tempered the outlook in those areas. Contacts indicated that the potential impact on the tourism industry along the coastline of Louisiana, Mississippi, Alabama and western Florida could be substantial. In some cases, vacation lodging cancellations have been replaced by bookings from clean-up crews, laborers, and the National Guard. The Nashville area is expected to see a decline in tourism-related receipts because of damage to several tourist venues there. The near-term outlook among hospitality contacts varied greatly, reflecting the high level of uncertainty.

Real Estate and Construction. District homebuilders reported that new home sales growth softened, but remained positive on a year-over-year basis. Most of the weaker reports came from contacts in Florida who noted a relatively sharp slowing in sales growth. The pace of construction activity weakened as well and was described as being roughly even with a year earlier. Most homebuilders commented that tax incentives had been a major driver of sales in most markets, although access to financing remained a significant challenge. The outlook among residential builder contacts weakened from the previous report but remained slightly positive overall.

Realtors indicated another modest improvement in existing home sales in April compared with a year earlier. However, on a month-over-month basis, responses from contacts showed that sales softened slightly. Realtors reported that high-end home sales exceeded their year-earlier level for the first time since early 2006. Inventory levels were described as similar to a year earlier, and home prices stabilized. The outlook for sales over the next several months remained positive but was a little less upbeat than recent reports.

The majority of commercial contacts reported that the pace of development was still well below year-earlier levels and construction backlogs were down sharply. Most noted that limited access to financing and weak demand continued to constrain activity. The outlook for commercial construction activity for the rest of the year remained weak.

Manufacturing and Transportation. A majority of District manufacturers noted increased levels of new orders and production in April compared with March. Most firms also reported plans to expand production levels in the short-term. Freight demand continued to improve from weak year-ago levels. Trucking contacts in the District noted an increase in business. However, they were uncertain whether the improvements reflected reduced capacity in the transportation industry or an overall increase in demand.

Regional rail shipments were up notably for automotive, chemical, and other raw industrial materials.

Banking and Finance. Banking contacts reported that credit standards remained stringent but that credit was readily available for borrowers that met the stricter requirements. Bankers also cited increasing foreclosure rates, bankruptcies, and loan delinquencies in several markets.

Employment and Prices. Although overall payroll employment levels appear to have increased across much of the District, many businesses still reported that they had a strong preference for increasing the hours for existing staff and using temporary staff rather than hiring fulltime employees.

District manufacturing and homebuilder contacts cited increases in commodity prices and transportation costs in April and early May. Several businesses reported that supply chain capacity constraints were responsible for some of the price increases. However, little of these cost increases were expected to be passed on to consumers as lower labor costs continued to relieve pressure on business balance sheets, and most firms said they faced intense competitive pressures.

Natural Resources and Agriculture. Late April's large oil spill in the Gulf of Mexico has had little immediate impact on District oil production. However, industry contacts expressed concern about the potential impact on future production if stricter regulations restrict drilling activity. Following the spill, supply vessels were able to reach existing rigs without interruption, and refinery operations were not disrupted significantly. Gulf Coast crude oil and gasoline stocks remained near the top of their seasonal average for this time of year. The regional fishing industry reported a significant reduction in activity, as fears of water contamination and safety concerns prompting bans on both commercial and recreational fishing in zones affected by the spill.

In early May, severe rainfall flooded parts of central Tennessee. According to the USDA National Agricultural Statistics Service's weekly crop survey, Tennessee farmers reported moderate to severe damages to 39 percent of the state's corn crop and 21 percent of winter wheat. Damages to fruit and vegetable crops and nursery stock have also been reported, as well as significant destruction of farm infrastructure. Elsewhere in the District, recent rains generally improved soil moisture conditions and crop production.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District continued to improve, but the rate of improvement slowed from April to May. Manufacturing continued to lead the way, and consumer and business spending also increased further. Construction activity improved slightly on the basis of increases in residential and public building. However, the gains in all of these sectors in May were somewhat slower than in April. Price pressures remained limited. Crop conditions were slightly better than normal for this time of year.

Consumer spending. Consumer spending increased in April and May. Though contacts noted smaller gains than during the previous reporting period, they attributed most of the slowdown to the early Easter holiday drawing sales into March. Noticeable increases were seen in the home improvement and lawn and garden categories as consumers prepared for summer. Auto sales also continued to rise as buyers returned to showrooms to take advantage of favorable price and credit terms. In addition, the pace of tourism activity increased with warmer weather and lower hotel rates boosting demand. Retail contacts indicated that recent increases in income should translate into higher sales with the momentum carrying forward into the fall season.

Business spending. The rise in business spending moderated from the previous reporting period. Inventory investment slowed. Contacts expect that manufacturers' will do only marginal restocking in the remainder of 2010, while retailers will rebuild inventories at least through fall. Labor market conditions improved. Contacts noted increasing signs that employment gains could be stronger in the second half of 2010. For example, they are seeing more job advertisements in categories associated with companies that are expanding employment. By sector, manufacturers continued to hire to fill skill-based needs and make use of previously idle capacity; and a large staffing firm reported billable hours rose in large part due to increasingly higher demand for industrial workers. Labor demand in professional and business services and retail trade also increased. Unemployment in the District remained above the national rate, with the average duration increasing. However, a contact noted that recently unemployed workers were re-entering the labor force more quickly than the previously unemployed.

Construction/real estate. Construction activity improved slightly from the previous reporting period. Residential building benefitted to some degree from the homebuyer tax credit that expired in April, but contacts noted that activity pulled back in May. They expect construction in 2010 as a whole to be just slightly better than in 2009. New residential development remained minimal. Contacts indicated tight credit combined with the overhang of existing unimproved and distressed lots are likely to deter development for an extended period. Single-family home prices held steady, but downward pricing pressure continued to be strong for condominiums. Private nonresidential construction remained weak, as the elevated inventory of vacant industrial and retail properties continued to hold back demand for new construction. Public construction, however, increased with contacts noting more activity in highway, education, and medical projects.

Manufacturing. Manufacturing activity was strong in April led by the automotive, energy, medical, and consumer goods industries, but the rise in production softened some in May. With sales holding up in recent months, a contact in the auto industry indicated that production was running at a steady pace. Capacity utilization in the steel industry leveled off, and a contact indicated that it was likely to stay around its current level for the next 3-to-4 months as the pace of inventory replenishment slows. For example, more manufacturers of industrial metals noted that they were buying only what material they could immediately manufacture and sell. In contrast, demand for heavy equipment was indicated to be finally turning a corner; dealers were rebuilding inventories and have seen a significant increase in demand for rent-to-sell fleets. Mining and agricultural equipment sales remained stronger than for construction equipment. Contacts indicated that the pipeline for the export of capital equipment abroad, particularly to Asia and South America, remains robust. The increase in residential construction in April led to an increase in activity for housing-related manufacturers with shipments of wallboard in the District up slightly as a result.

Banking/finance. Credit conditions improved, on balance, in April and May. Volatility increased across financial markets, and short-term lending and corporate credit spreads widened due in part to the uncertainty surrounding Europe's fiscal crisis. However, a contact noted that the financial system now has "more cushion" to absorb the higher cost of credit given the ongoing improvement in U.S. economic conditions. In a sign of this effect, banking contacts again reported better loan quality. Lending, particularly among large banks, increased with loan demand firming and terms and standards beginning to open up a bit. Residential real estate financing improved with secondary market appetite for jumbo and ARM mortgages beginning to return along with greater availability of private mortgage insurance. Bank lending remained more limited for commercial estate. However, private equity appetite for multifamily properties continued to be strong, and a contact noted that real estate investment by European and Asian investors was also on the rise.

Prices/costs. Price pressures were limited in April and May. Cost pressures from earlier increases in steel and energy prices were reported by several contacts, although the prices of both have decreased recently. Contacts noted that pressures from rising commodity prices were just starting to be noticeable and that the volatility of commodity prices was a greater concern. Wage pressures increased only modestly from the previous reporting period. Pass-through of cost pressures to downstream prices remained minimal, with pricing power in most industries continuing to be weak.

Agriculture. Crop conditions in the District were slightly better than normal for this time of year. Planting progress far exceeded that of a year ago with the exception of the southern portion of Iowa where heavy precipitation slowed field work. The emergence of corn plants was far ahead of average across most of the District, while soybean plant emergence was about typical. Rains were timely for the most part, but a period of cooler weather slowed crop development until hot and sunny weather gave a needed burst of energy to young plants in May. Corn and soybean prices remained in the same range as the prior reporting period, while wheat prices rose. Cattle and hog prices continued to rebound from last year’s lows, as animal numbers were constrained. Milk prices stabilized after declines, remaining below break-even levels.

Eighth District - St. Louis

Summary

Economic activity in the Eighth District has increased modestly since our previous report. Manufacturing activity increased on balance, while activity in the services sector was mixed. Retail and auto sales in April and early May increased over a year ago. Residential real estate market conditions improved throughout the District, while commercial and industrial market conditions continued to lag behind. Overall lending activity at a sample of large District banks increased modestly in the first quarter of 2010 compared with the fourth quarter of 2009.

Consumer Spending

Contacts reported that retail sales in April and early May were up, on average, over year-earlier levels. About 52 percent of the retailers saw increases in sales, while 36 percent saw decreases and 12 percent saw no changes. About 41 percent of the respondents noted that sales levels met their expectations, 32 percent reported that sales were below expectations, and 27 percent reported that sales were above expectations. Lower-priced items, apparel, and shoes were strong sellers, while higher-priced items and gifts moved more slowly. About 61 percent of the contacts noted that inventories were at desired levels, while 27 percent reported too-high inventories and 12 percent reported too-low inventories. The sales outlook among the retailers for this summer was mostly optimistic. About 73 percent of the retailers expect sales to increase over 2009 levels, while 23 percent expect sales to decrease and 4 percent expect sales to be similar to last year.

Car dealers in the District reported that, compared with last year, sales in April and early May were up, on average. About 64 percent of the car dealers surveyed saw increases in sales, while 9 percent saw decreases and 27 percent saw no changes. About 33 percent of the car dealers noted that used car sales had increased relative to new car sales, while 29 percent reported the opposite. Also, 25 percent reported an increase in high-end vehicle sales relative to low-end vehicle sales, while 13 percent reported the opposite. About 38 percent of contacts reported more acceptances of finance applications, but 17 percent reported more rejections. About half of the car dealers surveyed reported that their inventories were too low (mostly on new vehicles), while 8 percent reported that their inventories were too high. The sales outlook among the car dealers for this summer was generally optimistic. About 67 percent of the car dealers expect sales to increase over 2009 levels, but 12 percent expect sales to decrease. The remaining 21 percent expect sales to be similar to last year.

Manufacturing and Other Business Activity

Manufacturing activity has increased since our previous report. A greater number of contacts reported new hires and plant openings than reported job layoffs and plant closings. Firms in the fabricated metal product, office supplies, plastics product, and “hand and edge” tool manufacturing industries reported plans to expand operations and hire new employees. A major firm in semiconductor and related device manufacturing announced a significant amount of new hires along with the opening of a new plant. Two smaller firms in primary metal manufacturing also announced plans to open a new plant in the District and expand employment. In contrast, firms in synthetic dye and pigment manufacturing and pharmaceutical and medicine manufacturing reported plans to lay off workers and decrease operations.

The District's services sector activity has been mixed since our previous report. A firm in business support services announced job layoffs in response to decreased demand. A major electrical utility announced layoffs at several power plants and support service facilities. Several regional government agencies and education services providers announced job cuts in response to budgets cuts. In contrast, a major firm in the telecommunications industry announced that it will lose significantly fewer employees from a recent merger than previously expected. Additionally, a firm in the rail transportation industry announced plans to make significant capital improvements to the rail network.

Real Estate and Construction

Home sales increased in many areas of the Eighth District. Compared with the same period in 2009, April 2010 year-to-date home sales were up 25 percent in Louisville, 19 percent in Little Rock, and 9 percent in St. Louis. Home sales declined 2 percent in Memphis over the same period. Several contacts noted, however, that part of the increase was likely the result of the expiring home buyer tax credit.

Residential construction continued to improve throughout the District. April 2010 year-to-date single-family housing permits increased in nearly all District metro areas compared with the same period in 2009. Permits increased 65 percent in Memphis, 56 percent in St. Louis, 39 percent in Little Rock, and 38 percent in Louisville.

Commercial and industrial real estate market activity continued to be slow throughout the District. Compared with the fourth quarter of 2009, first-quarter 2010 industrial vacancy rates decreased in Memphis but increased in Little Rock, Louisville, and St. Louis. During the same period, the suburban office vacancy rate increased in Little Rock, Louisville, and Memphis and remained the same in St. Louis. The downtown office vacancy rate decreased in Little Rock but increased in Louisville, Memphis, and St. Louis. Several contacts throughout the District reported that commercial and industrial construction is at a standstill and is not expected to pick up until sometime in 2011.

Banking and Finance

A survey of senior loan officers at a sample of District banks showed a modest increase in overall lending activity in the first quarter of 2010 relative to the fourth quarter of 2009. During this period, credit standards for commercial and industrial loans remained basically unchanged, while demand for these loans varied slightly from moderately weaker to moderately stronger. Credit standards for commercial real estate loans ranged from unchanged to tightened somewhat, while demand for these loans was moderately stronger. Credit standards for consumer loans remained basically unchanged, while demand was about the same. Credit standards for residential mortgages were unchanged, while demand for these loans ranged from about the same to moderately stronger.

Agriculture and Natural Resources

Recent rains throughout the District caused some fieldwork delays. Planting of corn, cotton, and rice was ahead of its 5-year average pace, while planting of soybeans and sorghum was behind normal pace in most District states. Emergence of these crops was ahead of normal in most cases. About two-thirds of the winter wheat in Illinois and Missouri and at least 90 percent in the other District states were rated in fair or better condition.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew at a steady pace since the last report. Consumer spending, tourism, residential real estate and construction, services, manufacturing, energy, mining and agriculture saw increases. Commercial real estate was flat at low levels, and commercial construction activity was slow. Some signs of strengthening were noted in labor markets. Wage increases were subdued, and overall prices remained level.

Consumer Spending and Tourism

Consumer spending increased moderately since the last report. A major Minneapolis-based retailer reported that same-store sales in April and March combined were up 3 percent compared with a year earlier. A Minnesota-based manufacturer of outdoor maintenance equipment reported a strong start to the spring selling season. Meanwhile, a North Dakota mall reported that April sales were up about 3 percent, and a Montana hardware store operator noted that recent sales were above year-ago levels. Retail sales dipped slightly during April in some areas in part due to a relatively early Easter. For example, traffic at two Minneapolis area malls was down 3 percent and 7 percent, respectively, in April after increasing in March.

Automotive dealers in the Minneapolis-St. Paul area reported that car sales and maintenance and repair business were up from a year earlier. April new car sales were up significantly higher from March in Montana and the Upper Peninsula of Michigan, but were down slightly in western Wisconsin.

Tourism contacts are optimistic for the summer season. An official in the Upper Peninsula reported that tourism traffic was starting to look pretty good and a strong summer season is expected. The number of nonresident visitors to Montana is expected to increase 2 percent compared with a year ago after a flat year in 2009, according to state tourism officials. Inquiries about summer tourism activities were strong in Duluth, Minn. However, recent leisure bookings by a Minnesota travel agency were down during April and May, and advanced bookings for the summer season were slow.

Construction and Real Estate

Commercial construction was weak. April nonresidential permits fell dramatically in Sioux Falls, S.D. Several contacts in infrastructure building noted that the volume of publicly funded work is declining. However, a commercial builder in northeastern Minnesota and northwestern Wisconsin said that while most sectors were weak, demand for industrial construction was stronger. Residential construction continued to rebound. Housing permits in the Minneapolis-St. Paul area nearly doubled in value in May from the previous year; April permits rose 20 percent in value in Sioux Falls. The number of permits issued in and around Bismarck, N.D., increased from a year earlier.

Commercial real estate was slow. The amount of unused space in the retail market in Minneapolis increased by 135,000 square feet during the first quarter. An industry contact in northern Wisconsin noted that nearly every sector in his area was overbuilt. Residential real estate saw continued slow growth. April home prices increased in Minneapolis-St. Paul for the fourth consecutive month, the longest period of increasing prices since 2004. Brokers in Fargo, N.D., and Duluth, Minn., noted increased activity in April as home buyers took advantage of the federal tax credit before its expiration. Contacts around the District reported increased housing short sales for distressed properties.

Services

Contacts from various services firms noted a recent increase in business. Preliminary results of the Minneapolis Fed's annual survey of professional services companies in May showed that sales revenue, space usage, and profits are expected to increase over the next year. A small North Dakota information technology firm commented that the "outlook is good."

Manufacturing

Manufacturing output was up since the last report. An April survey of purchasing managers by Creighton University (Omaha, Neb.) showed that manufacturing activity increased significantly in Minnesota and South Dakota and increased slightly in North Dakota. A computer component plant in western Wisconsin planned to increase capital expenditures significantly in 2010. An expansion of a food processing facility is under way in North Dakota.

Energy and Mining

Activity in the energy and mining sectors increased since the last report. Late May oil exploration increased from early April. Wind energy projects continued to be planned and built in the western portion of the district. Iron ore production in Minnesota increased about 5 percent in April from March.

Agriculture

Agricultural activity increased. Across most of the District, crops were planted earlier than the five-year average and are emerging at a faster pace. However, the Minneapolis Fed's first-quarter (April) survey of agricultural credit conditions indicated that lenders expect overall agricultural income and capital spending to decrease in the second quarter.

Employment, Wages and Prices

Some signs of strengthening were noted in labor markets. In Minnesota, a shoe manufacturer recently announced plans to hire up to 80 more workers, and a manufacturer of windows and doors increased the workweek for employees after reducing their time during the economic downturn. About three-quarters of respondents to a Minneapolis Fed survey of temporary employment firms in Minnesota, North Dakota, and Wisconsin reported an increase in the number of customers and employed workers. Placements at industrial firms showed the largest increase. At a Montana employment office, more businesses were looking to hire employees, but overall hiring activity remained relatively slow.

Despite signs of improvement, overall labor markets remained weak. In Montana, a recent job fair attracted hundreds of job seekers for openings at almost 50 companies. A wood furniture factory and chain of stores in Montana recently went out of business, affecting over 60 workers statewide. Almost 50 workers were laid off by a defense contractor in Minnesota.

Wage increases were subdued. According to respondents to a recent St. Cloud (Minn.) Area Business Outlook Survey, only 18 percent expect to increase employee compensation at their companies over the next six months. In last year's survey, 21 percent expected to increase compensation. Several temporary staffing firms noted flat to lower wages. The majority of respondents from the Minneapolis Fed's preliminary survey of professional business services firms indicated no increases in wages for the next year. A nurses union in Minneapolis-St. Paul recently approved a one-day strike in response to negotiations with area hospitals, which had proposed to change work rules, cut pensions, and reduce health benefits.

Overall prices remained level. Some price pressures were noted in materials for large construction projects; however, in recent weeks, prices for oil, copper, and some steel products decreased. In addition, fertilizer prices were down from a year ago.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy grew modestly since the last survey with expectations of further improvement in the coming months. Consumer sales edged up at retail stores and auto dealerships, and District contacts were hopeful that rising consumer confidence would boost future sales. Residential real estate activity improved slightly, but real estate agents expected expiring tax credits to weigh on the housing rebound. While the commercial real estate market remained stressed, District contacts noted a slight improvement in leasing activity. Manufacturing activity expanded modestly, transportation activity strengthened, and factory managers expected further production gains. Bankers reported improved expectations for loan quality, and credit standards were generally unchanged. Energy activity expanded further as oil and natural gas production increased. Agricultural conditions improved with higher livestock profits and farmland values. Despite higher input prices, retail prices and wage pressures remained low, and few firms planned to pass through additional costs to consumers.

Consumer Spending. Consumer spending continued to improve, and many contacts expected further gains in retail sales. Spurred by lower prices and promotional advertising, retailers reported a rise in sales led by summer apparel items and lower-priced appliances. Auto dealers reported strong demand for used vehicles, which helped boost auto sales and reduce vehicle inventories. Some contacts felt rising consumer confidence would encourage future auto sales. Restaurant sales declined with fewer diners and a flat average check amount. With the onset of seasonal travel, tourism activity and hotel occupancy rose. Further improvements in the tourism and hotel industries were expected as summer travel picks up.

Real Estate and Construction. Residential real estate activity improved slightly in April and May, while the decline in commercial real estate activity slowed. Lower priced single-family homes sold well in April as buyers rushed to take advantage of tax credits. In contrast, sales of higher-priced homes slowed, contributing to a rise in home inventories. Real estate agents expected home sales to fall in the coming months due to expiring tax credits and weak job growth in some areas of the District. After rising in the last survey period, residential construction activity held steady. Mortgage lending activity rose with new home purchases, and loan refinancing volumes increased with lower mortgage rates. Commercial real estate activity remained weak and below year-ago levels. However, lower rents appeared to slow the rise in vacancy rates and raise absorption rates since the last survey period. District contacts expected leasing activity to rise faster than sales activity for commercial property in the coming months. Commercial construction activity continued to decline due in part to difficulty accessing credit.

Manufacturing and Other Business Activity. Manufacturing activity grew at a modest pace in April and May while transportation firms reported sustained growth. After several months of solid gains, the pace of production moderated at both durable and non-durable goods producing plants. The volume of new orders, order backlogs, and shipments edged down from March levels while finished goods inventories rose slightly. Employment levels were stable and fewer firms planned to increase payrolls. Still, manufacturing activity strengthened compared to a year ago, and more plant managers expected factory production to ramp up in the next six months. Some District manufacturers noted an increase in supplier delivery times, and sales activity in the transportation sector rose further. Most transportation firms anticipated the rebound would continue through the summer. Some companies were having difficulty finding qualified drivers, and a few contacts raised concerns about future capacity constraints. The high-tech industry reported a slight uptick in sales activity, partly due to an increase in government contracts.

Banking. Bankers reported steady loan demand, higher deposits, and an improved outlook for loan quality. Overall loan demand was essentially unchanged, following a series of declines over the last year. Demand for commercial and industrial loans was flat, while demand for commercial real estate loans and residential real estate loans increased moderately. Consumer installment loans continued to trend downward. Credit standards were generally unchanged. Slightly more bankers reported an improvement in loan quality from one year ago than reported a deterioration. Also, for the first time since late 2007, respondents expected stable rather than declining loan quality over the next six months. Deposits increased moderately after showing no change in the previous three surveys.

Energy. Energy production expanded since the last survey period, and additional gains were expected in the coming months. The number of active drilling rigs in the District rose further, primarily due to expansion in Oklahoma and New Mexico. Some firms reported difficulty finding qualified workers, especially engineers. Crude oil prices were expected to rise due to an uptick in demand from the industrial sector and higher gasoline use for summer travel. Since the last survey, fewer contacts expected further declines in natural gas prices. However, several natural gas producers were concerned that prices would remain low due to excess supply. With increased production and limited demand, supplies at natural gas storage facilities grew at a record pace. Though District coal production slowed in April and May, year-to-date volumes approached 2009 levels.

Agriculture. Agricultural conditions improved since the last survey period. Overall, the winter wheat crop was reported in good condition. However, prolonged cool, wet weather promoted wheat crop diseases, which could reduce yields in some areas of Nebraska, Kansas and Oklahoma. Corn planting was almost complete while soybean planting was slightly behind schedule. Crop prices were little changed since the last survey period, but hog and cattle prices rose significantly with further contractions in supplies. Improved incomes among livestock producers contributed to a rise in District ranchland values. Cropland values also increased with strong farmer demand and nonfarm investor interest. Agricultural lenders reported a slight decline in loan repayment rates, but loan renewals and extensions held steady.

Wages and Prices. Wage and retail price pressures remained low in April and May; however, input prices rose for some District firms. District labor markets improved slightly and contacts generally reported little wage pressure and few problems finding qualified workers. After falling in April and May, retail prices were expected to dip further in the coming months, and builders expected lumber prices to fall from their recent spike. However, materials prices, especially steel, rose sharply for District manufacturers. In addition, transportation companies noted rising fuel costs, and restaurant owners paid higher food prices. Despite rising input costs, most District contacts were reluctant to increase selling prices.

ELEVENTH DISTRICT—DALLAS

Business conditions continued to improve in the Eleventh District. Activity in manufacturing, staffing services, transportation services, housing and energy grew modestly. Retail sales were flat to slightly down but in line with retailers' expectations during the reporting period. While outlooks remained positive, contacts from some industries noted concerns about how the European debt crisis and recent stock market volatility would affect future business.

Prices Most contacts said prices were holding steady, although some paper, fabricated metals, and aircraft and parts manufacturers reported slight increases in selling prices. Contacts at department stores said less discounting was taking place. Input and raw material costs were generally stable, but there were reports of an uptick in the cost of lumber, food, engineered metal products, linerboard, steel and some industrial metals. Firms' ability to pass on these cost increases remained limited.

Crude oil prices dropped from $85 per barrel in early April to near $70 in late May. Natural gas prices were flat during the reporting period. Sharp increases in the price of petrochemicals such as ethylene and propylene seen earlier are reversing as ethylene plants come back online and refineries increase utilization rates. Declining prices have spurred export demand for U.S. petrochemicals and related products.

Labor Market Employment levels held steady at several respondent firms and there were a few reports of hiring activity. Staffing firms continued to cite increased demand for their services, and some contacts in transportation services, automotive sales, transportation and construction-related manufacturing said they had either added a few employees or planned on hiring additional workers. Wage pressures remained subdued, with the exception of the airline industry. Many firms are continuing with salary or 401(k) contribution freezes, although a few noted that they planned on giving small pay increases this year. In addition, staffing firms reported that pay rates were stable.

Manufacturing Most construction-related manufacturers said demand ticked up from low levels. Orders from the public sector and homebuilding industry have improved but demand for commercial construction materials remains weak. A few contacts said they were slowly increasing work hours or capacity utilization rates. Although there is still caution among contacts, outlooks were slightly more optimistic than the last report. Fabricated metals producers cited continued increases in demand, and reported that large government-related projects have boosted the sales outlook for the next three months.

Some high-tech manufacturers noted slight easing in export demand due to the European fiscal crisis, while others said orders continued to grow at a consistently strong pace. Inventories were reported to be under control and one semiconductor respondent said they were able to increase inventories to desired levels. Most respondents remain optimistic that demand will be strong over the next six months but noted that the outlook has become more uncertain due to fiscal problems in Europe.

Producers of trailers said continued strength in demand has boosted the outlook over the next three months. Manufacturers of aircrafts and parts said orders from the commercial and general aviation industry have improved, while demand for government and military aircraft remains weak. An aircraft repair and maintenance firm said demand strengthened over the past month, and is expected to rise further over the next three months.

Reports from paper manufacturers were mixed. Most respondents reported strong demand while one corrugated box manufacturer noted a decline in orders. Food producers noted an increase in orders. Inventories are at desired levels but some food manufacturers said stocking up for certain items has been an issue due to the recent acceleration in demand.

Petrochemical producers cited improved domestic demand for most products except for polyvinyl chloride, which is tied to commercial and residential construction. Demand for oil products is above year-ago levels, and refinery capacity utilization rates have risen from the low 80 percent range in early April to the high 80s in late May. Refinery margins have improved and are at their highest levels for the year.

Retail Sales Retail activity was flat to slightly down but in line with contacts' expectations during the reporting period. Contacts say the decline in sales was largely due to Easter pulling sales forward into March. Department store sales were flat despite strong demand for apparel and accessories. Most contacts say Texas sales are faring slightly better than the national average, and same-store sales are on track to hit low single-digit nominal growth this year. The outlook is for gradual improvement for the remainder of the year, with some concern over the impact of Europe's fiscal situation on consumer confidence.

Automobile dealers said sales ticked up since the last report. Inventories remain lean. Prices have been inching upwards due to some pullback in incentives introduced earlier. Contacts expect demand will gradually improve through the end of the year.

Services Staffing firms say demand remains strong and widespread across sectors. Orders are mostly for contract work but assignments are becoming longer in length and temp-to-hire placements continue to pick up pace. Sustained growth in demand has led contacts to expand staff levels and has boosted the near-term outlook. Accounting firms note demand remains flat and the outlook continues to be cautiously optimistic. Law firms report weak demand for most types of legal services, with the exception of a slight pickup in foreclosure-related activity. Contacts say that they will have fewer summer clerkships than normal due to sluggish demand.

Demand for transportation services was positive suggesting further improvement in overall economic conditions. Intermodal cargo volumes were flat over the past month but are slightly up from three months and year-ago levels. Shipping firms say large freight volumes continued to grow strongly but small parcel shipping volumes were flat over the reporting period. Railroads reported a significant and broad-based increase in shipments, and noted that the outlook is more upbeat than last time. Airlines cited further improvement in demand, with leisure travel seeing continued growth and business travel recovering. Contacts say domestic travel is rebounding but is not as strong as international demand. The outlook is positive as revenues have improved due to fare increases and advance bookings are holding up well.

Construction and Real Estate Housing demand continued to improve. Realtors reported positive gains in home sales as the homebuyer tax credit contributed greatly to a wave of buying. Builders increased starts due to tight new home inventories and improved sales activity. Prices were steady to slightly higher, according to respondents. Still outlooks reflect uncertainty about the remainder of the year and many contacts expect flat demand in the second half.

Apartment markets continue to fare better than expected, with occupancy and rents improving in most Texas metros. While concessions are ongoing, contacts noted they are not as widespread as earlier in the year.

Commercial real estate contacts said that although conditions remain weak, there are signs that the sector is firming. Leases and property sales have picked up as rents and prices have come down. Some contacts said there were a few instances of property prices being “bid up” due to the large amount of interested buyers versus the low amount of quality properties for sale. Despite the improvement, the large amount of space available is expected to keep commercial construction subdued for the remainder of this year.

Financial Services Overall loan demand softened during the reporting period. There is more commercial and industrial loan activity in the pipeline but consumer loan demand outside of credit cards remains sluggish. Contacts report that they are turning down many potential mortgage borrowers due to poor credit. Credit standards remain tight and loan pricing is unchanged. Some contacts reported an increased inflow of deposits, which they attributed to the unease arising from recent stock market volatility. Although contacts are relieved that the Federal Reserve will retain regulatory oversight over state member banks, there continues to be concern regarding other impending regulation changes. The outlook is slightly optimistic with some concern about the impact of the Greek credit crisis.

Energy The rig count rose further over the reporting period and most of the increase was in oil-directed drilling. Even with the drop in oil prices from $85 to $70 per barrel, oil-directed projects remain profitable. In contrast, at $4 per mmbtu prices do not justify unhedged shale gas drilling. Hence, as current hedges expire, contacts say that there will likely be a slowdown in gas-directed drilling.

Agriculture Lack of rainfall and high winds dried out the topsoil in some areas but recent rains have restored much of the lost moisture. Spring planting is moving ahead of its normal pace, and crop conditions are significantly better than last year. Demand for several agricultural products has improved and exports of cotton, rice and grains are up from last year. Cattle and cotton prices have risen and remain strong, while grain prices have weakened slightly.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

The Twelfth District economy posted further modest improvement during the reporting period of early April through the end of May. Despite rising prices for some non-oil commodities, price increases for final goods and services remained restrained, and upward wage pressures were largely absent. Demand for retail items and services continued to strengthen, but sales remain well below pre-recession levels. Manufacturing activity in the District continued to firm, with additional improvement noted in sectors such as wood products and metal fabrication, which have been among those most troubled. Agricultural producers reported solid sales, while demand was mixed for providers of natural resource products. Demand for housing appeared to hold largely steady, but conditions in commercial real estate weakened further. Banking contacts reported stable to slightly increased lending activity.

Wages and Prices

Upward price pressures remained limited on net during the reporting period. While the price of oil came down in recent weeks, the prices of other selected commodities, such as steel, copper, and concrete, rose. Additionally, contacts continued to report price increases for transportation services. Given the weak overall level of demand, however, the final prices for a wide variety of retail items and services continued to be held down.

Upward wage pressures were largely absent, although reports continued to point to notable increases in employee benefit costs. Compensation gains remained constrained by high unemployment and limited hiring throughout the District. Compared to the same period a year ago, the majority of respondents expect wages to remain largely stable or rise slightly in the second half of 2010, while they anticipate that benefit costs, especially for health insurance, will increase more significantly.

Retail Trade and Services

Retail sales remained somewhat lackluster on net but continued to improve modestly. Both traditional department stores and discount chains reported additional increases in sales, and although consumers remained focused on necessities, contacts noted further increases in demand for some nonessential items and higher-priced options. Sales remained strong for grocers and continued to improve for sellers of furniture and household appliances. Similarly, retailers of home remodeling supplies and equipment saw robust levels of activity. Sales of new automobiles improved a bit further during the reporting period, although contacts cautioned that demand has slipped somewhat in recent weeks.

Demand for services showed further signs of improvement but remained weak overall. Providers of health-care services reported relatively steady levels of activity, while energy utilities reported increased demand from households and from firms in selected industries, such as technology and wood products. Similarly, restaurants and other food-service firms noted continued modest increases in demand. Sales remained sluggish for providers of professional and media services. Conditions continued to improve in the tourism and leisure sector: Contacts in many of the District's major markets reported increases in visitor volumes and hotel occupancy rates, and, notably, reports pointed to positive developments in business travel and convention activity.

Manufacturing

District manufacturing activity picked up further on balance during the reporting period of early April through the end of May. Conditions continued to improve for manufacturers of semiconductors and other information technology products, with balanced inventories and high levels of capacity utilization noted. An extensive order backlog generally held production rates at a steady pace for makers of commercial aircraft and parts, although new orders continued to be limited. Capacity utilization remained at very low levels for companies in the metal fabrication and wood product sectors, but further modest improvement in demand was reported. Food manufacturers witnessed continued growth in new orders and sales with high levels of capacity utilization.

Agriculture and Resource-related Industries

Demand stayed solid for agricultural producers but was mixed for extractors of natural resources used for energy production. Sales held largely steady for a variety of crop and livestock products, and reports from agricultural contacts indicated little change in input costs. Oil extraction activity decreased somewhat in recent weeks as the price of oil declined. Meanwhile, despite high levels of inventory, extraction of natural gas increased modestly as demand showed signs of firming.

Real Estate and Construction

Demand for housing in the District appeared to be little changed from the previous period, while demand for commercial real estate deteriorated a bit further. Home prices continued to edge up in some parts of the District, and although the pace of home sales remained mixed across areas, it appeared largely stable on net. However, contacts continued to note that the limited availability of nonconforming "jumbo" loans has restricted sales of higher-priced homes in some areas. Scattered reports pointed to some modest improvements in residential construction, most notably in the repair and remodel sector. Conditions worsened somewhat further in commercial real estate markets, with vacancy rates for office and industrial space edging up in many parts of the District. However, contacts reported continued improvements in leasing activity for some market segments of the District as tenants seek to secure favorable terms.

Financial Institutions

Reports from District banking contacts indicated that loan demand was largely stable or slightly up compared with previous reporting periods. Businesses' cautious attitudes towards capital spending continued to restrain commercial and industrial loan volumes; however, reports indicated a pickup in loan demand coming from selected businesses that are planning to replace worn or outdated equipment and software. Demand for consumer loans remained weak on net. Lending standards continued to be relatively restrictive for consumer and business lending, although reports suggested that credit quality may be stabilizing. Going forward, continued modest improvement in commercial and industrial loan demand seems likely; overall, respondents expect capital spending in equipment and software to increase further in the second half of 2010, although capital spending in structures is anticipated to remain lackluster.